Growing the global success of Irish Dairy

Ornua
THE HOME OF IRISH DAIRY

Annual Report 2017

About Us

Ornua is a dairy co-operative which markets and sells dairy products on behalf of its members; Ireland's dairy processors and, in turn, the Irish dairy farmer.

Ornua is Ireland's largest exporter of Irish dairy products, exporting to c.110 countries worldwide. Headquartered in Dublin, it has annualised sales of over €2 billion and has a strong global team of c.2000. It operates from 19 business units worldwide, including 14 production facilities, and has sales and marketing teams working in-market across all four corners of the globe.

The Group is structured across two divisions: Ornua Foods and Ornua Ingredients.

Ornua Foods is responsible for the global marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Forto and BEO milk powders. Markets are served by production facilities and in-market sales and marketing teams in Africa, Asia, Germany, Ireland, the UK, the rest of Europe, the Middle East and the US.
Read more on page 17

Ornua Ingredients is responsible for the procurement of Irish and non-Irish dairy products and for the sale of dairy ingredients to food manufacturers and foodservice customers. Ornua Ingredients is supported by production facilities in Saudi Arabia, Spain, the UK, the US, and by in-market teams in Africa and the Middle East.
Read more on page 21

Our Global Community

Meet some of our consumers, staff members and stakeholders from around the world when you see this symbol.

At a Glance

Ireland's largest exporter of dairy products

Exporting to c.110 markets around the world

Strong global team of over 2,000

Proud owner of Kerrygold

Adds value to Irish milk through brands and ingredients

Markets the unique taste of grass-fed Irish dairy

Operational Highlights

Record year for Kerrygold in Germany and the US with double-digit volume growth

Strategic acquisition and integration of UK cheese ingredients business; F.J. Need (Foods) Ltd

Expansion of Ornua Deutschland's production facility, bringing total facility investment to €60 million

Record year for Ornua Ingredients North America and €2 million shred and dice line commissioned

Opening of an innovation centre in CoreFX, a US ingredients business

Innovative white cheese ingredients products expanded to UAE, Kuwait and Oman markets

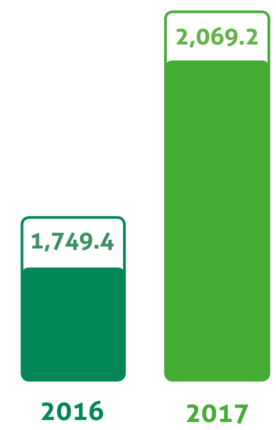
34 new product innovations launched, including a Kerrygold shredded cheese range in Germany

Setting of 2021 operational sustainability targets; 15% reduction in carbon emissions per MT; 25% reduction in total food waste and 10% reduction in total waste water

New five-year syndicated bank facilities of €610 million secured to support dairy industry growth

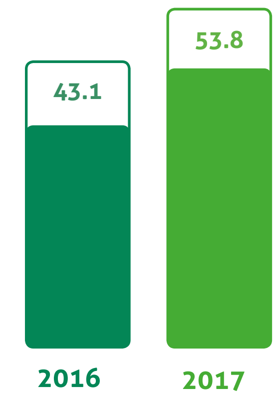
Financial Highlights

Turnover €m



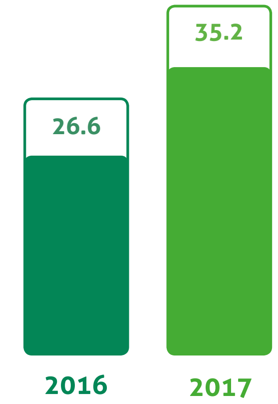
18% ↑ Year-on-Year change

Group EBITDA* €m



25% ↑ Year-on-Year change

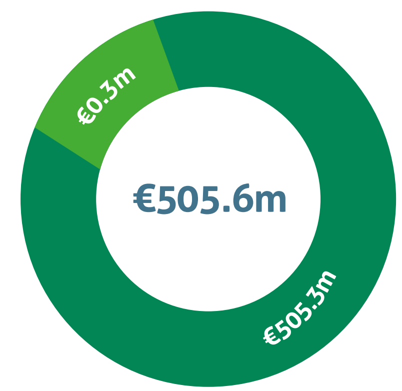
Operating Profit* €m



32% ↑ Year-on-Year change

* Before exceptional items

Net Assets



Net Assets Excluding Cash

Net Cash

Members Bonus

€15m

Our Global Community

Nina von Kurzynski
Staff Member

"I'm very proud to work with the No. 1 brand for butter, spreads and cheddar cheese in Germany. There are lots of opportunities to challenge yourself and develop your career in Ornua Deutschland. On top of that I enjoy working with a committed and passionate team."

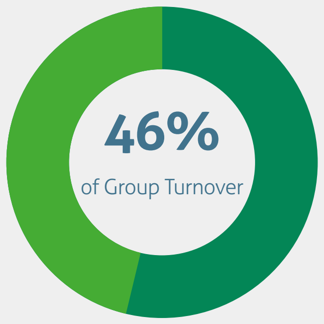
Neukirchen-Vluyn, Germany

Our Group Structure

Ornua Co-operative Limited

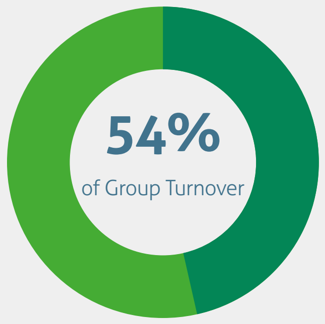
Ornua Foods

- Ornua Asia
- Ornua Deutschland
- Ornua Foods Africa
- Ornua Foods Europe
- Ornua Foods Middle East
- Ornua Foods North America
- Ornua Foods UK
- Kerrygold Park



Ornua Ingredients

- Ornua Butter Trading UK
- Ornua Foodservice
- Ornua Ingredientes España
- Ornua Ingredients North America
- Ornua Ingredients UK
- Ornua Nutrition Ingredients UK
- Ornua Saudi Arabia
- Ornua Trading & Ingredients Ireland
- CoreFX Ingredients
- F.J. Need



Our Global Community

Read stories from our global community when you see this symbol.

Farmer & Ornua Board Member
pg 15

Staff Member
pg 4

Research Partner
pg 88

Food Waste Partner
pg 36

Kerrygold Consumer
pg 16

Staff Member
pg 20

Key

- Ornua Export Markets
- Sales & Marketing Teams
- Ornua Innovation Centres
- Ornua Business Units
  - Powders
  - Cheese
  - Yogurt
  - Sour Cream
  - Butter

(F) Ornua Foods
(I) Ornua Ingredients

Growing Ornua

Our vision is to be a leading global dairy organisation rewarding our customers, consumers and stakeholders.

Ornua 2021 Targets

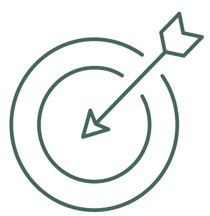
Build sustainable and value-added routes to market

€3bn

in revenues by 2021

3%

sustainable EBITA margin



Our Mission

1. To provide our **consumers** with the best tasting grass-fed dairy products, with a key focus on being a leading supplier in our established markets of Germany, North America and the UK, whilst continuing to develop our other international businesses.
2. To be a leading global supplier of value-added ingredients to our food manufacturing and foodservice **customers**.

Our Strategic Goals

Ornua Foods

Kerrygold
Move from a world-class butter brand to a strong dairy brand in our established focus markets of Germany, North America and the UK.

Route to Market
Grow routes to market for Irish dairy through our brands for Cheese (Pilgrims Choice in UK) and Powders (Africa), with a focus on volume growth.

Developing Markets
In our developing markets of China, MENA and Continental Europe, our focus will be to build and consolidate on our investments.

Ornua Ingredients

Irish Supply
By paying strong prices we will maintain our current share of Irish dairy exports.

Trading
Become a leading trading and de-risk specialist to assist our suppliers and customers to manage volatility.

Value-Added Ingredients
Our primary focus will be on processed, pizza and recombined white cheese, supplying the foodservice and B2B channels.

Growing our Talent

Attracting, developing and retaining the best talent is vital to the success of our business and we are committed to ensuring we remain an 'Employer of Choice' in our industry.

Everything we do is underpinned by our values

With heart

With thought

With vision

With drive

Chairman's Statement

With a clear vision to be a leading global dairy organisation, I am delighted to present Ornua's financial results for 2017, year one of the Group's new 5-year Growth Plan, *Ornua 2021*.

Aaron Forde, Chairman

Ornua 2021 aims to deliver a strong growing global dairy business for its members and stakeholders. The plan's strategic ambitions are to grow revenues to €3 billion and to deliver a sustainable 3% EBITA margin with enhanced member returns above that. The accompanying financial plan (2017-2021), approved by the board in January 2017, allows for continued investment in strategic projects, brands, innovation, in-market resources and capex to deliver a robust business for our members.

The board declared a €15 million payout to members, up from €9.5 million in 2016.

Business Performance
For this reason, the strong trading performance in 2017 is particularly satisfying. Both Group revenue and Group EBITDA* were up significantly on 2016, enabling the board to declare a €15 million payout to members, up from €9.5 million in 2016 (in addition a €5 million DPI related bonus was declared in 2016). We continue to work with members to help them manage the challenges posed by market volatility. Ornua increased the volume of purchases under fixed term contracts and we also increased the bank facility for use by our members for their working capital requirements to €350 million, freeing up cash flow for them to manage and invest in their businesses.

In line with *Ornua 2021*, this positive outturn in 2017 included on-going growth and strategic investment in the business, strong market returns, as evidenced by the performance of the PPI, and a further increase in member purchases.

Other notable achievements during the year were double-digit sales growth of Kerrygold in Germany and the US, the acquisition of F.J. Need which strengthens Ornua's position as a leading supplier of cheese ingredients in the UK, the up-scaling of Kerrygold Park's manufacture of Irish butter and spreads for the Kerrygold brand, an enhanced group-wide focus on Health & Safety and the successful

* Before exceptional items

refinancing and extension of our current banking facilities for another five years.

Markets
There was a welcome recovery in milk prices in 2017. An extended period of market weakness had curtailed milk output globally and strong demand, in particular for butterfat, led to a recovery in fat-based products. By the third quarter of 2017, butter prices had reached record levels, while in contrast, protein prices were disproportionately low, creating an unprecedented differential in the EU's fat and protein price ratio.

In Ireland, the recovery in milk prices and positive weather conditions led to a 9% increase in milk output. According to Teagasc, the average milk price for 2017 was up 30% on 2016 and while total production costs on a per litre basis are estimated to have increased by 3%, net margins on a per litre of milk basis increased substantially. The outlook for 2018 is for a further growth in milk supply and a decline in commodity prices, most particularly for butter and possibly SMP, as the Commission seeks to reduce its stock of intervention powder. On the back of record milk output, both in the EU and in Ireland in 2017, EU milk prices have eased since the start of the new year. Prospects for the full year for our dairy farmers will be supply-side driven. Another record year of milk output in the EU is forecast in 2018. Global demand is growing more slowly and the outlook for the year is likely to be determined by the EU's export performance and the reaction of farmers to the weaker farm gate prices.

Brexit
Twelve months on, the challenge of Brexit to Ornua and the Irish dairy industry is undiminished. We welcome the agreement to negotiate a transitional period once the UK leaves the EU at the end of March 2019. This transitional period is essential for both the EU and the UK to negotiate the details of the final agreement and for business to adjust to the new trading realities. Ornua's priority will be to ensure that our UK customers and consumers continue to enjoy the very best of Irish dairy products and that the inevitable negative consequences of Brexit are minimised for all our stakeholders.

Appreciation
Appreciation must go again to my fellow board members for their support to me as Chairman and I, in turn, thank our Vice-Chairman, Jim Russell, for his continued support. As part of the Board's commitment to improved governance, an extensive review of the Society's Rules was completed in 2017 and approved at a SGM in May. The objective of the review was to ensure that the Society's Rule book is aligned to principles of good corporate governance and to the board's ambitions for the Society. A dedicated Ornua Board Development Programme was also completed during the year.

Twelve months on, the challenge of Brexit to Ornua and the Irish dairy industry is undiminished. We welcome the agreement to negotiate a transitional period once the UK leaves the EU at the end of March 2019.

At the end of the year, the board's longest serving member, Dan MacSweeney, retired. We thank Dan for his unstinting support to Ornua and for his 25 years of sound stewardship of the board, and we wish him well in his retirement. On behalf of the board, I would also like to thank James Lynch for his contribution during his tenure on the board. James retired in January 2018 and we equally extend our best wishes to him. With this rotation, we are delighted to welcome two new members, Jason Hawkins and John O'Gorman, and wish them well in their endeavours to support Ornua in growing its business.

The drivers of Ornua's success are many, not least its customers, its many stakeholders and the Irish Government, in particular Minister Creed and his officials in the Department of Agriculture, Food and the Marine, as well as the many state bodies and agencies with whom we work. Our farmer members and their supply of quality raw material to the member co-ops are the foundation of all our work.

Credit and recognition must also go to Ornua's workforce throughout the world, for their dedication and hard work in promoting the very best of Irish dairy products. After eight years, Kevin Lane, Ornua's Chief Executive, is stepping down in 2018. Kevin's dedication to the role, his drive and his conviction has been outstanding and he can justifiably be proud of his many achievements and of the strong performance of the business under his leadership. On behalf of my fellow board members, I sincerely thank Kevin for his dedication and leadership in growing the business, in ensuring its financial stability and in strengthening the Kerrygold brand. We wish him the very best for the future.

Aaron Forde
Chairman

Chief Executive's Report

2017 was another successful year for Ornua. We made positive progress towards delivering the first year of the Group's new 5-Year Growth Plan, *Ornua 2021*, and positioning the business as a leading global dairy organisation that delivers results for our customers, consumers and stakeholders. Ornua is the largest exporter of Irish dairy products and our team of over 2,000 staff proudly bring the unique taste of grass-fed Irish dairy products to over 110 countries worldwide.

Kevin Lane, Chief Executive

On behalf of my team I am pleased to report a strong performance in 2017 in terms of financial results, product innovation and business development into our core and developing markets. This performance is underpinned by the strategic roadmap of *Ornua 2021*, the Group 5-Year Growth Plan we implemented last year.

Financial Performance

The business delivered a strong trading performance in 2017, with revenue up 18% to €2.1 billion, EBITDA* up 25% to €53.8 million, and an operating profit* of €35.2 million, up 32%. It also achieved another year of record Irish purchase volumes of 338,000t. The Group closed the year with net cash of €0.3 million. In November 2017, we refinanced our bank facilities for another five years, increasing them to €610 million, leaving us well placed to support dairy industry expansion and to drive further growth across the Group.

These results were achieved in a year of extreme volatility in the butter market, one of our core product segments, and against the continuing uncertainty posed by the UK vote to leave the European Union.

Brand & Ingredients Performance

In 2017, we continued to grow the strength of our brand portfolio in key markets. This translated into a record year for our businesses in Germany and the US, with both reporting double-digit volume growth. 34 new product innovations were launched, including a new Kerrygold shredded cheese range in Germany. These launches are part of our strategy to extend the Kerrygold brand from a well-known butter brand into a €1 billion global dairy brand in the coming years.

Ornua Ingredients delivered record purchase volumes in 2017 and continued to grow its value-added routes to market for Irish dairy products. In the US, Ornua Ingredients North America had a record year and commissioned a new €2 million shred and dice line. In the Middle East, Ornua Ingredients expanded its white cheese products offering into the United Arab Emirates, Kuwait and Oman.

* Before exceptional items

Building Scale & Capability

Ornua's focus in 2017 was on integration of previously acquired businesses, as well as considerable investment in new facilities and expanded production capabilities. In the UK we acquired and integrated F.J. Need into Group operations and have expanded the business's production capabilities. We opened a new innovation centre at CoreFX, a US ingredients business we acquired in 2016. We also successfully implemented a new foodservice strategy, resulting in strong growth opportunities both in the UK and Middle Eastern markets.

In Germany we expanded Ornua Deutschland's production facility at Neukirchen-Vluyn, bringing total facility investment to €60 million; whilst at Kerrygold Park in Ireland, the scaling of its operational capability produced over 30,000t of butter in 2017.

> The business delivered a strong trading performance in 2017, with revenue up 18% to €2.1 billion, EBITDA* up 25% to €53.8 million, and an operating profit* of €35.2 million, up 32%.

Sustainable Growth

As a business, we have a responsibility to reduce our impact on the environment. To improve our efforts, we have developed a clear set of sustainability targets within a framework called *Our Way Matters*. Aligned to the UN's Sustainable Development Goals (SDG), the framework contains three pillars which centre around farming, operations and support of communities. Operational sustainability targets include a 15% reduction in carbon emissions per MT, a 25% reduction in total food waste and a 10% reduction in total waste water by 2021. In partnership with Tesco, Ornua is also committed to halving food waste by 2030 through the UN's SDG initiative, Champions 12.3.

Successful deployment of *The Ornua Way*, our operational excellence programme, delivered further savings in 2017. The lean manufacturing principles we have introduced saved the business €5.5 million in 2017, up from €2.4 million in 2016.

Today's New Challenges

The Brexit vote in the UK may have happened almost two years ago, but the full implications of it have yet to be determined. In the meantime, we are reviewing a range of strategic measures to help minimise any potential negative impact. Our five UK businesses are maintaining a rigorous focus on production efficiency, product quality, customer service and new product development so that we remain a supplier of choice in the UK market.

We also continue to capitalise on our established positions in other major export markets such as the US and Germany and accelerate our development in key emerging markets such as Africa, China, Europe and the Middle East. We do this by investing further in new routes to market, in-market presence and new product development programmes.

People

Ornua delivered the success it had in 2017 through its hugely talented team of over 2,000 staff around the world. We know that attracting, developing and retaining the best talent is vital to the success of our business and are committed to ensuring we remain an 'Employer of Choice' in our industry. As part of our diversity and inclusion strategy, we want to build a workforce that better reflects the markets and cultures we do business in, by creating an environment where both male and female leaders can thrive. Ornua's Global HR strategy, launched in 2016, encompasses four pillars to help ensure our success in supporting and motivating our team; talent acquisition, reward and recognition, driving performance and talent development.

The Future

It is with great fulfilment that I have been able to reflect on such a successful year for Ornua. In 2017 we delivered on our ambitious promise to our stakeholders and demonstrated our progress in reaching our 2021 goal of being a €3 billion revenue business, with a sustainable EBITA margin of 3%.

After over eight years as Chief Executive of Ornua, I am stepping down this summer from a role that has been a true honour to hold. It has been an incredible journey for me personally and I believe Ornua is well placed to navigate its way successfully through its next period of growth.

I want to extend my deepest thanks to my Executive team and Board of Directors; particularly Chairman Aaron Forde. I would also like to thank our staff all around the world for the hard work they do every day and the support they have given me in helping take Ornua forward. Each of us have shared in the pride of a very special heritage of telling the story of Irish dairy family farming on the world stage and turning this into commercial success for our members. Finally, I want to thank the members and the farmers we represent. It is their support, and the world-class milk they produce every day, that provide the foundations on which Ornua has been able, and will continue, to thrive.

Kevin Lane

Kevin Lane
Chief Executive

2017 Global Markets

Farm gate milk prices recovered strongly in 2017 after hitting a trough in mid-2016. European milk prices increased by over 45% between mid-2016 and the end of 2017. This was reflected in Irish milk prices which rose by over 50%, from 23 cpl to 35 cpl.

The recovery in milk prices followed a period of price weakness which began in mid-2015 and eventually led to global milk supply easing back in H1 2016. While global demand stabilised and supply struggled to meet demand, the price of dairy commodities increased, which facilitated a recovery in milk prices.

The supply and demand imbalance was especially evident for butter. The combination of reduced milk flows, poor SMP returns curtailing butter production, growing cream exports and solid demand, resulted in European butter stocks becoming extremely tight.

As a result, European butter prices increased to €6,500 per MT in September. Even with SMP returns at historic lows, record butter prices and robust export demand for cheese meant that processor returns increased. This, in turn, led to a rise in milk prices from late 2016, which continued throughout the majority of 2017.

With milk prices on the rise, naturally farmers supplied more milk. European deliveries attracted the most attention with strong recovery in German, French and UK flows in the second half of the year, adding to steady supply growth in the Netherlands, Italy, Poland and Ireland. With collections in the US, Oceania and Argentina also growing, global supply increased by 3% every month in the final quarter of 2017.

On the demand side, while EU export trade for dairy commodities grew by 5% throughout 2017, domestic demand in Europe and the US was sluggish with consumption of fresh milk, yogurt and cream in decline. This meant global dairy demand was growing by between 1% and 1.5% through 2017; a much slower rate than the supply growth experienced in the latter part of the year. Demand growth was further impacted by record butter pricing. European butter exports fell sharply as price sensitive end-users used less butter and switched to cheaper vegetable alternatives.

With global supply over-shooting demand in the final quarter of 2017, spot commodity prices fell sharply by the end of the year. Butter fell from September highs of €6,500 per MT to €3,800 per MT, cheddar slipped from €3,500 per MT to €2,800 per MT while SMP price levels remained at low levels, at less than €1,300 per MT, despite strong European exports with intervention stocks continuing to overhang.

With strong European milk flows looming large, farm gate milk prices across the globe started to come under pressure in late 2017 as processors sought to stem stock builds and prevent further weakness in commodity pricing.

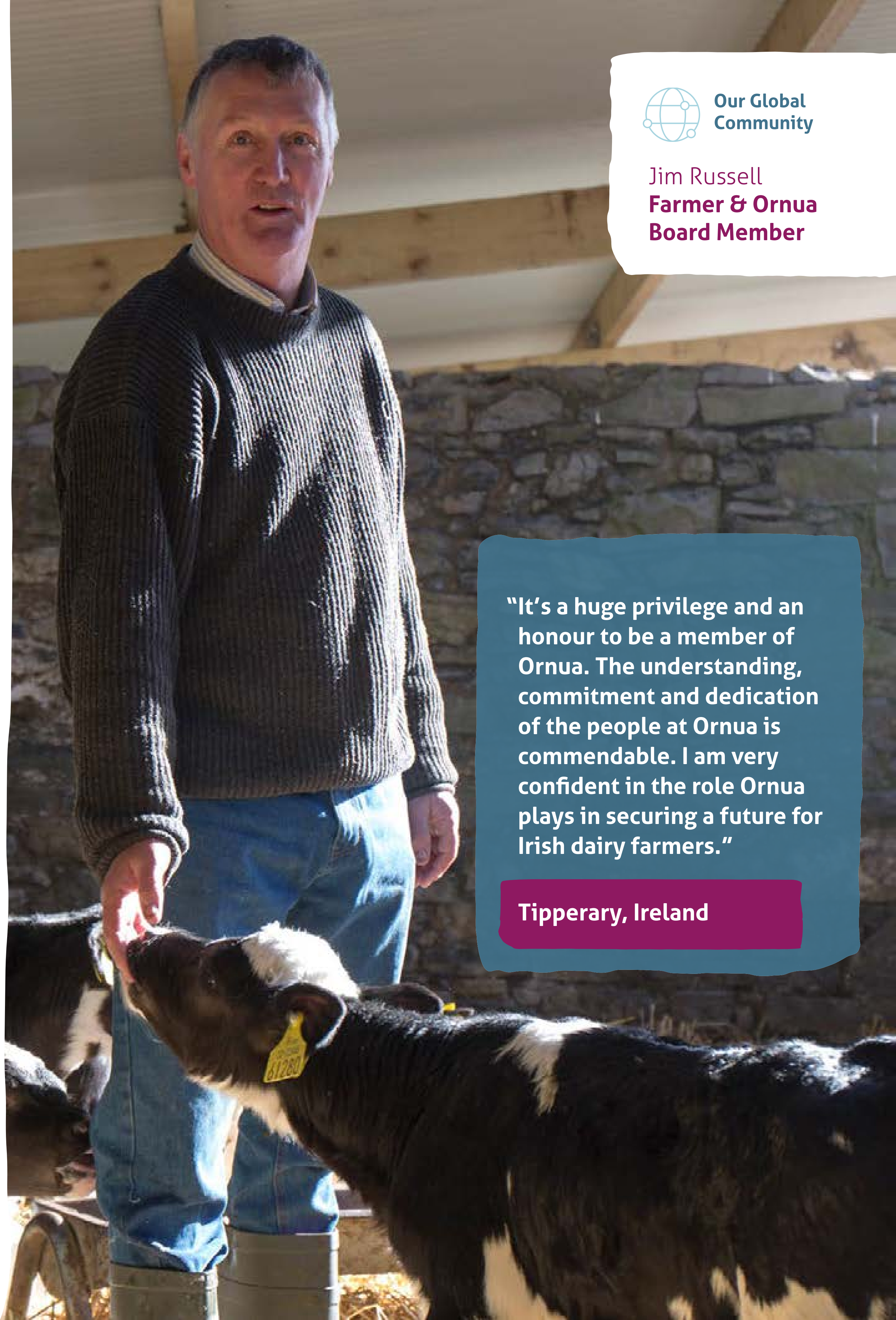
Looking ahead to 2018, butter pricing, while significantly lower than in 2017, is likely to remain at a historically high level as stocks take time to replenish against the backdrop of weak SMP prices.

Cheese exports should also offer some support, as will forecasts of strong Chinese demand for butter, cheese and WMP throughout 2018.

However, barring a major weather event or some other supply-side shock, the volume of milk in the pipeline indicates global supply will exceed demand for the first half of 2018. Considering the time it usually takes to reduce milk supply in response to lower commodity prices, farmers can expect farm gate milk prices to fall below 2017 levels despite rising input costs. In the absence of another spike in butter pricing, strong pick up in SMP returns, exceptional Chinese import volumes or a significant jump in oil prices, milk prices may not recover to the extent they did at the tail end of 2016.

Considering the above, it will be a challenge to hold average farm gate milk prices above 30 cpl through 2018.

Joe Collins
Managing Director,
Ornua Trading & Ingredients



Our Global Community

Benedicta Otobo
Kerrygold Consumer

"I came across Kerrygold nine months ago and haven't changed my milk since. Kerrygold is really rich and creamy, I can't stop going back to get a more of it. I love the taste of it, it's delicious!"

Lagos, Nigeria

Our Global Business Reports

Ornua Foods

Ornua Foods is responsible for the marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Forto and BEO milk powders. Markets are served by production facilities and in-market sales and marketing teams in Africa, Asia, Germany, Ireland, the UK, the rest of Europe, the Middle East and the US. 2017 was a strong year for Ornua Foods, maintaining market-leading positions across key markets on the back of strong growth in 2016.

The quality milk from grass-fed cows, which gives Irish dairy its unique world-renowned taste, is paramount to the success of Ornua's brands worldwide. Every day, in over 110 markets around the world, Ornua teams share the story of Irish dairy farming. This story has resonated with consumers across the globe for decades.

Ornua Asia

2017 saw Ornua Asia complete the purchase of a minority stake in Ambrosia Dairy, a fresh dairy product manufacturing business based in Shanghai. This business, which has an increased focus on the ingredients and foodservice sectors, has continued to leverage its unique position of holding a manufacturing licence within Shanghai.

Kerrygold continued to expand its footprint in Asia with the launch of Kerrygold in South Korea, complementing existing business in Malaysia and Singapore.

2017 was Ornua Deutschland's most successful year to date with double-digit sales volume growth year-on-year.

Ornua Deutschland

2017 was Ornua Deutschland's most successful year to date with double-digit sales volume growth year-on-year.

Kerrygold Butter volumes grew by more than 6%, further increasing its well-established No. 1 brand position. Kerrygold Extra volumes grew by more than 30% and significantly extended the market-leading position it gained in 2016. Kerrygold Cheese volumes grew by 15% and the product range was extended with the introduction of three new varieties of shredded cheese.

Kerrygold launches its first advertising campaign since 2010 in Ireland

Kerrygold Yogurts, which launched in 2016, are well-established in the market. In 2017, the range was refreshed with new seasonal flavours and was positively received by retailers and consumers.

In 2017, more than 50% of all German households bought a Kerrygold product, which placed the brand in the top 10 of all FMCG brands in Germany.

The extension of Ornua Deutschland's headquarters in Neukirchen-Vluyn was completed in September 2017. This was the third expansion of the facility, bringing the total facility investment to €60 million, as Ornua Deutschland invest to meet the growing demand for Kerrygold products in Germany. The investment expanded production and storage facilities, in addition to developing enhanced office space. The outlook for 2018 continues to be optimistic and further dynamic growth in all areas of the business is expected.

Ornua Foods Africa

Ornua Foods Africa had a strong year in terms of brand growth with increased distribution across a number of key markets including Nigeria, Democratic Republic of Congo and Algeria. Kerrygold Butter had a very good year in South Africa, driven by strong retail distribution and in-store sampling campaigns.

Ornua's brand portfolio for milk powders, Kerrygold, BEO and Forto, have seen a significant increase in volume growth through market specific strategies targeting segmented consumer needs.

Ornua Foods Europe

Kerrygold continues to build on strong distribution of both cheese and butter across key markets in Europe. An increased investment in consumer engagement, on the back of improved listings, has resulted in volume and value growth in traditional markets including Greece and the Mediterranean Isles, but also across emerging markets such as Spain and Poland. The introduction of a new zip pack for the Kerrygold Cheese range in Europe has been extremely successful, with positive retailer and consumer feedback.

A range of in-market consumer-focused activity supported the launch of Kerrygold in Australia, where full national listings were secured with all key retailers.

Ornua Foods Middle East

Oil-dependent economies continued to experience difficulties throughout 2017, due to depressed internal markets and challenges in terms of access.

Markets in the Middle East also proved to be challenging, particularly in light of the record high butter costs. A number of key markets have government price control restrictions in place which makes it very difficult to secure price increases; therefore, limiting the level of promotional support that Kerrygold can offer.

> The Kerrygold brand continued to perform well in the butter and specialty cheese categories in the US, achieving 21% year-on-year volume growth.

Ornua Foods North America

2017 was another notable year for Ornua Foods in the US market, with achievements in many areas of the business despite extreme pressure on butter costs. The Kerrygold brand continued to perform well in the butter and specialty cheese categories, achieving 21% year-on-year volume growth.

Minister Creed TD at the launch of Kerrygold in South Korea

A fully-integrated, TV-led Kerrygold marketing campaign reached a 50% awareness level amongst mainstream US consumers. The campaign remained focused on the core Kerrygold brand equities of grass-fed and taste, which align to both category and consumer interest.

Kerrygold Irish Cream Liqueur, while still in its infancy, is now available in over 5,000 retail accounts and achieved strong distribution growth year-on-year. The LATAM region continued to perform well, despite extreme pressure on butter costs and challenges on product mix. Business development for the region is clearly mapped out, with three new markets identified for entry from 2018.

Ornua Foods UK

Ornua Foods UK had a successful year across all areas of the business, despite the unprecedented rise in butter costs.

Sales of both the Pilgrims Choice and Kerrygold brands grew in 2017. Pilgrims Choice gained market share and further strengthened its position as the No. 2 cheddar brand in the UK. Kerrygold gained market share through the growth of its core range, which is now the No. 3 block butter brand in the UK, and through the addition of the newly launched Kerrygold Spreadable range. Continued investment in marketing across both flagship brands further increased brand loyalty and repeat purchase rates.

There was a continued focus on working with customers to deliver best-in-class category expertise, which resulted in growth in all core retail own-label cheese categories. New leading-edge packing technology, investment in people and a continued focus on improvement, delivered a positive step change in operational efficiency in 2017.

Kerrygold Park

Kerrygold Park made significant progress in 2017. Its core objectives were to scale operations with a continued focus on achieving operational excellence in order to fully deliver on customers' needs. Total volume at Kerrygold Park reached over 30,000t in 2017.

A number of new and innovative products were launched from Kerrygold Park in 2017, including Kerrygold Spreadable for key markets such as the UK and the US, which highlights its product innovation capability. There is a strong pipeline of new product launches identified for 2018.

Attaining and retaining external and independent accreditations was a key focus for the team in Kerrygold Park. BRC was retained at Grade AA which demonstrates Ornua's dedication to achieving the highest technical and quality standards possible.

Our Global Community

Muhammed Haris
Staff Member

"Being part of an international business like Ornua has helped me develop, grow and contribute to the company. Everyone is treated as an important member of the team and new ideas are encouraged creating a unique culture. I feel privileged to work here."

Riyadh, Saudi Arabia

Our Global Business Reports

Ornua Ingredients

Ornua Ingredients is responsible for the procurement of Irish and non-Irish dairy products and for the sale of dairy ingredients to food manufacturers and foodservice customers across the world. Ornua Ingredients is also responsible for managing volatility through de-risking and trading strategies.

Headquartered in Ireland, Ornua Ingredients is supported by production facilities in Saudi Arabia, Spain, the UK and the US and by in-market teams in Africa and the Middle East. Its extensive product range, excellent customer service, product development expertise and insights, technical support and volatility management tools ensure it delivers solutions that are in line with customer needs.

Ornua Ingredients delivered record purchase volumes in 2017 and continued to grow its value-added routes to market for Irish dairy products. Strong performances in Ireland, the US and Spain were offset by a challenging year in the UK. The acquisition of F.J. Need solidified Ornua Ingredients' position as a leading supplier of cheese ingredients to the UK foodservice and food manufacturing sector. Investments made in trading and de-risking expertise were timely given the unprecedented dairy price volatility, particularly for butter.

Ornua Ingredients delivered record purchase volumes in 2017 and continued to grow its value-added routes to market for Irish dairy products.

Ornua Butter Trading UK
Ornua Butter Trading UK is a bulk butter trading business and major supplier to the UK food manufacturing and foodservice sectors. On the back of record volumes in 2016, it increased sales volumes by a further 6.4% year-on-year. It is now the largest single supplier of bulk butter to the sector. The market was extremely volatile with availability halfway through the year becoming exceptionally challenging across Europe.

Ornua Butter Trading UK looks to continue to expand its presence in the sector by further developing key partnerships and seeking new opportunities for Irish bulk butter.

Ornua Foodservice
Ornua's foodservice business continued to develop products and services focused on the Group's core competencies in cheddar, pizza cheese and cheese formatting. Value-added technologies in cheese processing delivered significant results in 2017, particularly within the casual dining and regional Quick Service Restaurants (QSR) segments in both Europe and the Middle East.

Ornua Ingredients North America experienced a record year with strong volume growth in 2017 and double-digit uplift in profitability.

Palatina Taste Partners is Ornua's specialist foodservice brand, which offers a range of world-class dairy products for foodservice operators and chefs around the world. Palatina's products, including cheddar, feta and mozzarella, consistently deliver superior functionality, performance and taste. 2017 saw continued growth in the sector with the addition of cheddar slices, feta and Emmental cheese to the Palatina portfolio.

Ornua Ingredientes España

Ornua Ingredientes España manufactures natural mozzarella and processed cheese for the foodservice market.

The business traded well in 2017 and was on track to grow shared sales with its QSR customers before a fire severely damaged its production facility in November 2017. Ornua's Business Continuity Plan ensured uninterrupted supply to the facility's customers. The Ornua Board approved plans to re-build a new cheese production facility at Avila, Spain, in December 2017. The Group would like to acknowledge the ongoing support of the national, regional and local Government in Avila, Spain and its customers, members and staff for their patience and support throughout this challenging time.

Ornua Ingredients North America

Ornua Ingredients North America, headquartered in Hilbert, Wisconsin, produces functional cheese solutions for US food ingredients and foodservice customers.

The business experienced a record year with strong volume growth in 2017 and double-digit uplift in profitability despite a less than favorable CME (Chicago Mercantile Exchange) cheese market. Having invested significant resources in product innovation in 2016, Ornua Ingredients North America reaped the benefits of these investments during 2017, principally through meeting customers' needs for 'cleaner' cheese labels.

The business commissioned a new €2 million shred and dice line which will drive future business growth. It also won a number of new contracts in 2017 and is poised to build on that momentum in 2018, continuing to record strong growth in terms of volume and profitability.

Ornua Ingredients UK

Ornua Ingredients UK is one of the leading providers of cheese and dairy solutions to the UK foodservice and food manufacturing sectors. Its comprehensive range of dairy products is supported by product innovation and consumer insights, which deliver solutions in line with customer needs, driving customer success.

The business had a challenging year due to difficult market conditions. The successful roll-out of an Enterprise Resource Planning (ERP) system in Whitchurch has delivered a renewed focus on continuous improvement and increased productivity and efficiencies, decreased costs, improved inventory accuracy, product traceability and streamlining of processes.

The focus on improving integration between the two sites continued with new strengthened processes firmly in place. Ornua Ingredients UK rose to the challenges presented by the fire at the Ornua Ingredientes España facility in 2017, successfully integrating the facility's cheese volumes into UK production cycles to maintain supply to the Spanish customer base.

Looking to 2018, as part of its overall foodservice strategy the business will continue to focus on the pizza and QSR sectors and develop business with its global blue-chip QSR customers.

Ornua Nutrition Ingredients UK

Ornua Nutrition Ingredients UK is a specialist supplier of high quality, value-added, dry powdered food ingredients and products serving UK food manufacturers and nutritional brand owners.

The business experienced volume growth in 2017 which was primarily driven by the first year of the successfully integrated supply partnership with EasiYo, the New Zealand owned make-your-own yogurt brand. The partnership has proved to be a valuable route to market for Irish dairy.

Ornua Saudi Arabia

Ornua Saudi Arabia's Al Wazeen production facility continued to build capability across functions whilst steadily building reputation and positioning the business for further growth, against a challenging macroeconomic background.

It commenced exports of its innovative white cheese ingredients, developed in partnership with Teagasc, to UAE, Kuwait and Oman markets. In addition, it achieved the international BRC AA quality accreditation standard, which demonstrates Ornua's dedication to achieving the highest technical and quality standards possible.

Ornua Saudi Arabia commenced exports of its innovative white cheese ingredients to UAE, Kuwait and Oman markets.

Ornua Trading & Ingredients Ireland's foodservice business enjoyed a successful year, with the Middle East performing to budget, strong growth in the UK and the establishment of effective initiatives with global QSR partners.

Ornua Trading & Ingredients Ireland

Ornua Trading and Ingredients Ireland is responsible for the procurement of products from Irish dairy processors and third-party suppliers and the sale and trading of dairy ingredients to global food manufacturers and foodservice providers.

In an increasingly challenging and volatile environment, 2017 was a good year for the business. While volumes increased year-on-year, they were marginally behind budget as the result of a reallocation of butter from Ornua Ingredients to higher value branded businesses, particularly in the US and Germany.

There was an increased uptake of Ornua's fixed milk price scheme which is an important component of an industry wide effort to manage the extreme volatility of milk pricing at farm level.

In 2017, Ornua Trading & Ingredients Ireland's foodservice business enjoyed a successful year, with the Middle East performing to budget, strong growth in the UK and the establishment of effective initiatives with global QSR partners, which promise significant opportunities in 2018. It continues to invest in significant managerial, sales and innovation resources in the foodservice sector; a strategically important growth area for the business.

Ornua Trading & Ingredients Ireland will remain focused on supply chain volume efficiency, value-added growth and volatility management in 2018 and will work closely with Ornua's member suppliers in identifying and mitigating any potential impact of Brexit.

CoreFX Ingredients

CoreFX Ingredients, headquartered in Chicago, Illinois, develops and commercialises innovative dry dairy cheese and lipid ingredients to make customised ingredient solutions for a diverse range of US food manufacturing customers.

A key focus for 2017 was the investment in an upgrade of infrastructure at the CoreFX production facility. The 5,000-square foot innovation centre was completed in November 2017 and features a registered research and development lab, a state-of-the-art kitchen and an open floor plan to foster collaboration with customers. The production facility in Orangeville, Illinois, earned organic certification under the USDA National Organic Program (NOP) and is also BRC certified. A 10,000-square foot warehouse expansion is underway and is due to be completed in 2018.

CoreFX Ingredients earned organic certification under the USDA National Organic Program (NOP) and is also BRC certified.

F.J. Need

F.J. Need was acquired by Ornua at the beginning of 2017. Based in Cheshire, UK, the company supplies a comprehensive range of British and Irish cheese ingredients to the foodservice and food manufacturing sectors and is the owner of foodservice brand Spinneyfields.

Post-acquisition, 2017 was a strong year for F.J. Need. The combination of its excellent reputation within the UK market, complemented and strengthened by Ornua's trading expertise, supply and global recognition, enabled it to win a number of important blue-chip customer contracts. Recent investments in expanding the capabilities of the production facility allow the site to now supply cheese in grated, diced, deli block, sliced and other formats. The benefits of these investments were evident in business growth in 2017.

Sales volumes have grown significantly and it continues to have a strong pipeline of new business which will further enable the business to capitalise on the recent capacity investments.

Our Global Business Reports

Innovation & Insights

Consumer tastes are constantly evolving and, as a result, innovation is a key component of Ornua's strategy for growth, with innovation teams supporting both Ornua Foods and Ornua Ingredients. To support the global reach of many of Ornua's retail partners and manufacturing and foodservice customers, Ornua teams are based in innovation centres in Ireland and across Ornua's production facilities in Germany, Saudi Arabia, Spain, the UK and the US.

Inspired by the latest food trends and consumer insights, the innovation teams create new concepts to add to its branded product portfolio and help customers to meet the ever-changing tastes and demands of their consumers. In Ireland, the innovation team collaborates closely with its member suppliers to commercialise new products.

Building on a strong pipeline of new product development in 2016, innovative products contributed to 17% of Ornua's product portfolio in 2017. Ornua Foods' innovation teams focused on strengthening its core butter and cheese range, which supports the strategy of moving Kerrygold from a well-known butter brand into a global dairy brand.

Launch of a new Kerrygold Cheese range in Germany


CoreFX Ingredients innovation centre opening

Ornua Foods & Insights Highlights

34 new retail products were launched in 2017, with a focus on the Kerrygold brand in Germany and the US.

The Kerrygold Yogurt range was expanded with the introduction of eight new seasonal flavours. The increased product range strengthens Kerrygold's premium position in the category, by adding interesting new flavours and an enhanced natural yogurt recipe for German consumers. Kerrygold Yogurts were awarded best innovation product of the year by Milk Marketing magazine.

The launch of a new Kerrygold shredded cheese range in Germany, which included a pizza cheese mix, grated red cheddar and red cheddar cubes, opened further channels with consumers. The launch of Kerrygold chilli cheese slices and a new redesign of the Irlander slice pack further enhanced Kerrygold's sliced cheese range in Germany.

Kerrygold Irish Cream Liqueur was launched in a premium bottle, enhanced with a cork closure and satin bottle finish.

Kerrygold Spreadable and a new lactic unsalted spreadable version was launched in Australia, increasing brand presence within the yellow fats category.

Ornua Ingredients & Foodservice Highlights

Ornua Ingredients North America developed a new premium flavour and clean label technologies for processed cheese in the frozen entree and snack categories.

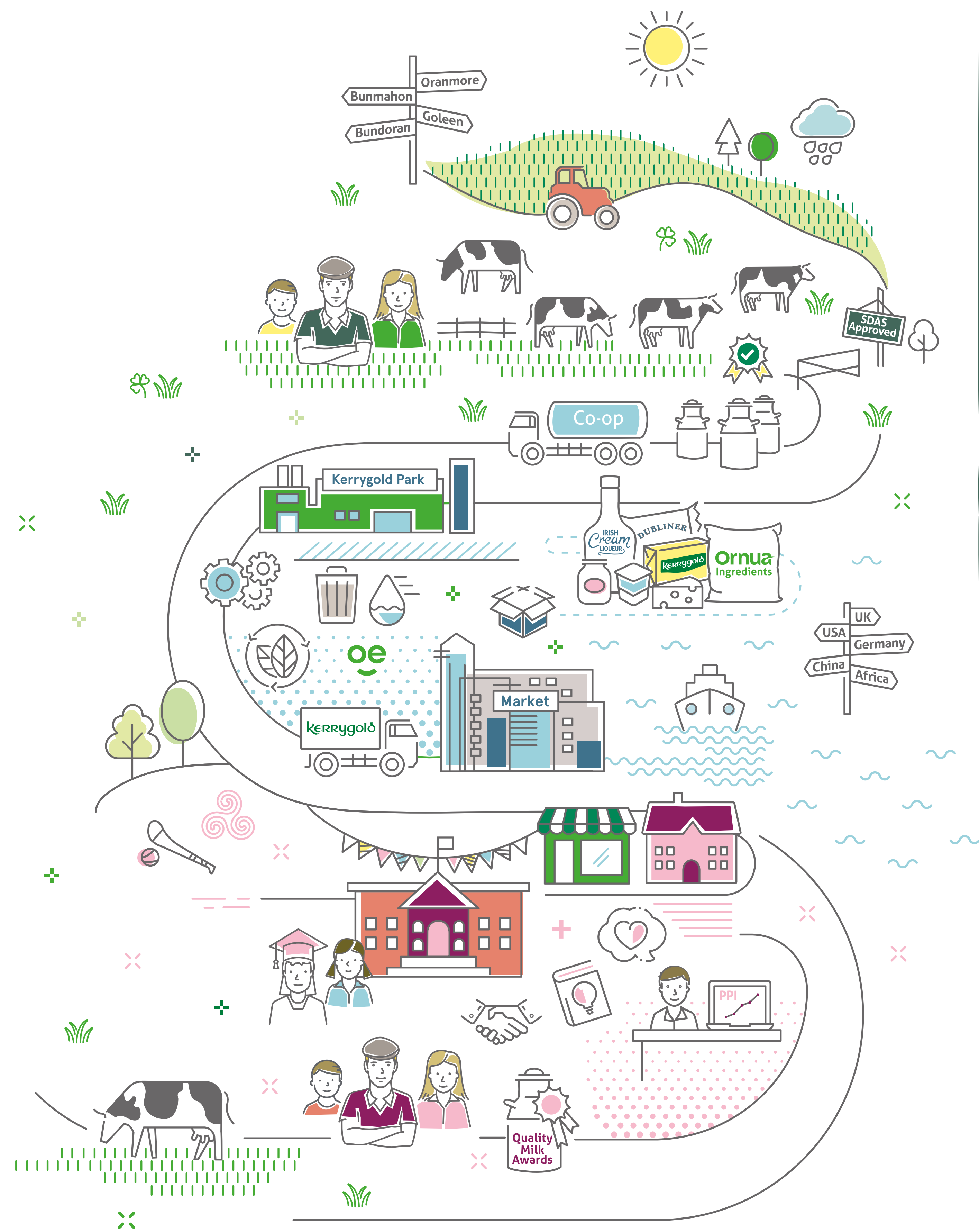
Enriched powders continued to be a growth area in markets in the Middle East and North Africa. This growth has been underpinned by innovation efforts to meet the specific sensory and functional needs of individual brand owners and industrial customers.

Ornua's white cheese technology was used to develop bakery applications for Middle Eastern customers.

Palatina Taste Partners range was extended beyond grated and deli block to include a sliced range and feta salad cheese.

Ornua's innovation capability was further strengthened with the opening of a new centre in CoreFX ingredients.

34 new retail products were launched in 2017, with a focus on the Kerrygold brand in Germany and the US.



Our Way Matters

At Ornua, we have an ethical and legal obligation, as well as a genuine desire, to drive action to ensure we play our role in safeguarding a vibrant and sustainable Irish dairy industry for generations to come.

Our Way Matters is Ornua's sustainability framework. Aligned to *Ornua 2021*, the Group 5-year Growth Plan, and the United Nation's Sustainable Development Goals (SDGs), Our Way Matters sets out the strategy the business is undertaking to reach its sustainability goals. The framework contains three pillars which set out positive initiatives that benefit the environment, the business and the community.

Our Way Matters is governed by the Our Way Matters working group, a 35-person group with representatives from each of Ornua's production facilities and Group functions including Operations, Sustainability, Group Communications, Procurement, Logistics, HR, Technical, Health & Safety and Packaging. This framework allows Ornua to track, monitor, report and communicate sustainability efforts. Our Way Matters working group members report monthly and quarterly metrics to Ornua's sustainability team. The Executive are updated with a quarterly progress report, and an annual report is produced detailing key targets and achievements.

In 2017, Ornua hosted its first sustainability conference. The two-day conference explored sustainability from farm level right through operations and on to delivery to the customer. The conference marked an exciting milestone on Ornua's journey to further embed its sustainability framework across the Group.

Ornua's sustainability goals are aligned with the Sustainable Development Goals (SDGs) - a global vision set out by the United Nations to end poverty, protect the planet and ensure prosperity for all by 2030.

SUSTAINABLE DEVELOPMENT GOALS

Our Way of Farming

Our Way of Operating

Our Way of Supporting

Ornua's 2017 Sustainability Conference

Our Way of Farming

Our Way of Farming captures how Ornua supports and promotes Ireland's grass-fed family farming system.

Ireland is one the most efficient and environmentally sustainable milk producers in the world. Respect for the land and environment that give Irish dairy products their unrivalled taste is vital to the sustainability credentials of Ornua's brands and ingredients. As a business, Ornua recognises that it has a responsibility to work with all stakeholders to reduce agriculture's impact on the environment.

"The attention to detail is something that everyone on this farm takes pride in. We believe that if our standards drop, the quality of our product will do likewise."

John Walsh
Winner of the 2017 NDC & Kerrygold Quality Milk Awards

2017 Highlights

Funded the Origin Green Dairy programme and worked collaboratively with Bord Bia to deliver a programme of activity that included an international customer and consumer awareness campaign, trade research and an SDAS dairy farmer communications campaign.

Supported an animal welfare project through partnership with Teagasc – Ireland's agricultural research and advisory agency and Dairy Research Ireland. This project helps assess and further improve the standard of health and welfare of cows on Irish dairy farms.

Supported the development of the ICOS Climate Change Report.

Recognised and promoted excellence in Irish dairy through the sponsorship of the NDC & Kerrygold Quality Milk Awards. Since 2009, the TBC (Total Bacteria Count) and SCC (Somatic Cell Count) scores for the finalists have improved by c.50% - a strong signal of Irish dairy farmers commitment to continuously improving farming standards.

Hosted a series of on-farm visits and workshops with customers, staff and other stakeholders to share knowledge about Ireland's sustainable grass-fed family farming system.

As a founding member of AgriAware, Ornua promoted the importance of agriculture to the Irish public through the support of AgriAware. Activity included a farm walk and talk series for secondary level students, a garden at Bord Bia's Bloom festival to showcase sustainable agricultural practices and the development of a primary school farming educational resource.

What is the Sustainable Dairy Assurance Scheme (SDAS)?

Managed by Bord Bia, in close collaboration with the industry, the SDAS audits dairy farmers against over 170 criteria at 18-month intervals. The scheme measures performance in quality and sustainability and calculates the carbon footprint of every Irish dairy farm. 90% of Ireland's dairy farmers are now certified under the programme, with targets in place to achieve 100% certification in 2018. SDAS is a vital tool in proving and promoting the sustainability of Irish dairy to customers and consumers around the world.

"Irish farming is more than just a business; it is a way of life. Irish farmers learn their craft from their parents and grandparents before them. It is no accident that Irish dairy products are regarded as the best in the world. Irish farmers and their family's commitment to delivering world class quality milk, day in day out, coupled with our grass-based farming systems have enabled us to build successful markets for dairy products around the world."

Michael Creed TD
Minister of Agriculture, Food & the Marine

Our Way of Operating

Our Way of Operating captures how Ornua drives sustainable operational practices across its production facilities and supply chain to reduce its impact on the environment.

Ornua is committed to reducing its carbon footprint. During 2016 and 2017, energy, water and waste data was collected at each operational facility to identify a Group baseline. This enabled the Group to identify areas for improvement and set Group operational sustainability targets for 2018-2021.

2017 Highlights

Established Ornua Group operational sustainability targets 2018-2021:

- 15% reduction in carbon emissions per MT
- 25% reduction in total food waste
- 10% reduction in total waste water

Committed to adoption of Champions 12.3, a UN-led food waste reduction target to cut food waste by 50% by 2030.

Awarded the International Continuous Improvement Excellence Award from the Leading Edge Group.

Launched a new Group Health & Safety strategy that included the appointment of a H&S manager and the establishment of a H&S committee in each operational facility.

Successful submission of new 5-year Origin Green Plan which includes targets relating to raw material sourcing, operational targets on carbon emissions, water and waste and social sustainability targets including our staff health and wellness programme and charitable food donations.

All established operational facilities maintained BRC AA Global Standard Food Safety Accreditation.

Ornua Deutschland retained certification of ISO 50001 and ZNU (Business Sustainability Standard).

Reduced carbon emissions across the Group including a 71% reduction per tonne at Ornua Deutschland due to conversion to green electricity, a 31% per tonne reduction at Ornua Foods UK and a 21% reduction per tonne at Ornua Ingredients North America (Hilbert).

Launch of Champions 12.3

theOrnuaWay

In 2017, Ornua became the first recipient of the International Continuous Improvement Excellence Award from the Leading Edge Group. Ornua's operational excellence team was acknowledged for successfully deploying *The Ornua Way*, Ornua's operational excellence programme, across nine production facilities. *The Ornua Way* delivers sustainable improvements and results in a process which creates less waste, uses less energy and is more economically effective. The programme delivered savings of €5.5 million in 2017, up from €2.4 million in 2016.

Origin Green

Ornua is a founding member of Origin Green, the sustainability programme for Ireland's food and drink industry. It is the only programme of its kind in the world operating on a national scale; uniting government, the private sector and food producers through Bord Bia. It requires participants to develop and implement sustainability targets in areas such as procurement, operations and social sustainability.

Champions 12.3

Ornua partnered with Tesco to show its commitment to UN SDG 12.3 – by *2030, to halve per capita global food waste at retail and consumer levels, and to reduce food losses along production and supply chains.*

The business recognises that through active participation in ground-breaking initiatives such as Champions 12.3, it can take the steps necessary to reach, not only business specific targets, but industry-wide targets, while also contributing to the success of the UN Sustainable Development Goals.

Health & Safety

Ornua is committed to preventing harm and providing a safe and healthy working environment for its people and partners. This commitment starts with the Group Executive Team and extends to all employees across the business. The Group's goal is to be best-in-class in the control and management of safety hazards in its work environments. It recognises that excellence in managing Health & Safety is essential to the long-term success, and sustainability, of the business.

Our Way of Supporting

Our Way of Supporting captures how Ornua creates shared value for its many stakeholders; staff, members and farmers, customers, industry, and communities.

As a co-operative, Ornua is formed on the premise of creating shared value for the dairy industry. It recognises that social, economic and environmental responsibilities to these stakeholders are integral to its business and aims to demonstrate these responsibilities through supporting causes which are a natural match to its values as a business.

SPRING

In 2017 Ornua launched Spring; a health and wellness programme to support and promote healthy bodies and happy minds. The programme offers a range of initiatives to foster a culture whereby staff have a better work-life balance resulting in a happier, healthier and more motivated workforce. Last year staff across the Group took part in many different and fun initiatives including; concentration techniques, meditation and mindfulness sessions; Commit to Fit, an eight-week fitness programme; the Kerrygold mile, a one-mile fun run or walk for staff; social events and more.

Participants on the 2017 Ornua Graduate Programme

Ornua Graduate Programme

A further 13 graduates entered Ornua's Graduate Programme in 2017, providing an excellent opportunity for career growth in the dairy industry. The 18-month programme consists of a comprehensive induction, structured rotations, classroom based and self-directed learning modules with the Irish Management Institute, as well as valuable mentoring from its experienced leaders, some of whom started off as Ornua graduates themselves.

The year ahead

In 2018 Ornua is committed to building on the existing momentum and progress achieved under the Our Way Matters framework as well as pushing the business to create new ambitious targets across the supply chain.

2017 Highlights

2017 Long Service Awards

2017 Kerrygold Mile

Our Staff

Continued investment in initiatives that encourages the professional and personal development goals of our staff. Highlights include;

- 23 senior high-potential leaders successfully completed Ornua's Global Leadership Programme
- Leadership Masterclass programme delivered for over 300 staff
- Launched a Leadership for Growth programme for emerging leaders
- Implemented a suite of learning and development courses for all staff
- Delivered Performance Management workshops to over 200 staff
- Launched a new health and wellness programme, Spring, globally
- Developed a Group Diversity Strategy
- Created a diversity & inclusion working group to bring Ornua's diversity strategy to life

Our Industry & Community

Provided funding of the Origin Green Ambassador Programme which places 10 ambassadors with key global customers to promote Origin Green awareness and work on collaborative sustainability projects.

Participated on Dairy Sustainability Ireland, a Government and industry collaborative body that seeks to address the sustainability objectives set out in Food Wise 2025, while recognising the challenges of agri-expansion in meeting national and international targets for water quality, climate change, the clean air package and bio-diversity.

Donated over 11,000kg of product from Kerrygold Park to FoodCloud. Through partnership with food redistribution organisations such as FoodCloud (Ireland), Fareshare (UK) and (Blackboard) in Germany, Ornua helped to reduce food waste and redistribute food to those in need.

Our Members

Delivered a 2017 Purchase Price Index that was 99.1% of indexed LTO, excluding year-end bonuses.

Other initiatives and organisations supported in 2017 include;

Advanced Engineering Apprenticeship Programme (Ornua Foods UK)

Animal Health Ireland – supporting the advancement of animal health

Macmillan Cancer Support (Ornua Ingredients UK)

Children's Home & Aid – assisting children in need (Ornua Foods North America)

Cork Butter Museum - promoting the heritage and history of butter making in Ireland

Focus Ireland – tackling Ireland's homelessness problem

Healthy Lunch Break Initiative with schools and kindergartens (Ornua Deutschland)

Macra na Feirme – supporting Ireland's young farmers

Nuffield Ireland – support of young farmer scholarship programme

Teagasc – support of animal welfare and grass-fed related project work

Zac's Miracle - over £40,000 raised for member of Whitchurch community with cerebral palsy (Ornua Ingredients UK)

Our Global Community

Iseult Ward
Food Waste Partner

"Without the support of Ornua, achieving our mission of ensuring *'no good food goes to waste'* would not be possible. The leadership position that Ornua and others are taking is facilitating a much more productive and transparent conversation about food waste. The donations we've received to date have ensured our charity partners have consistent access to high quality butter."

FoodCloud, Dublin, Ireland

Financial Statements

Financial Statements

Supplementary Information

Corporate Governance

Ornua Co-operative Society (Ornua or "the Society") is committed to operating in accordance with best practice in corporate governance. This means maintaining the highest standards of financial reporting, business integrity and ethics.

Governance in Action

The Ornua Board ("the Board") consists entirely of non-executive Directors, appointed or elected in accordance with the Rules of Ornua Co-operative Ltd. The non-executive Directors (board members), in general, represent supplier members to the Society and farming organisations. There is one independent non-executive Director.

The Board's principal responsibilities are to agree overall strategy and investment policy, approve major capital expenditure, provide an essential challenge function to the Chief Executive Officer and other Executives, monitor Executive performance and ensure that good corporate governance is observed at all times including the presence of proper internal controls and risk management practices.

As well as ensuring compliance with its principal legislative duties as set out under the Companies Act (2014) and the Industrial and Provident Societies Acts (1893-2014), the Board has a number of matters reserved for its consideration.

It plays a key role in scrutinising financial and business performance. The Group's planning and financial reporting procedures include detailed operational budgets for the year ahead, the delivery of KPIs and a regularly updated 5-year plan, all of which require Board review and approval.

The Board receives regular reports on important operational and business issues arising in its two Group divisions; Ornua Foods and Ornua Ingredients. It also receives topical briefs during the year to help individual Directors remain fully informed and responsive to relevant developments.

The Board held 11 ordinary meetings in 2017 which covered routine Board business.

Measures like these ensure that all Board Directors are aware of, and are in a position to, monitor business progress and to discharge effectively their individual Directors' duties under the governing legislation.

Board Performance Evaluation

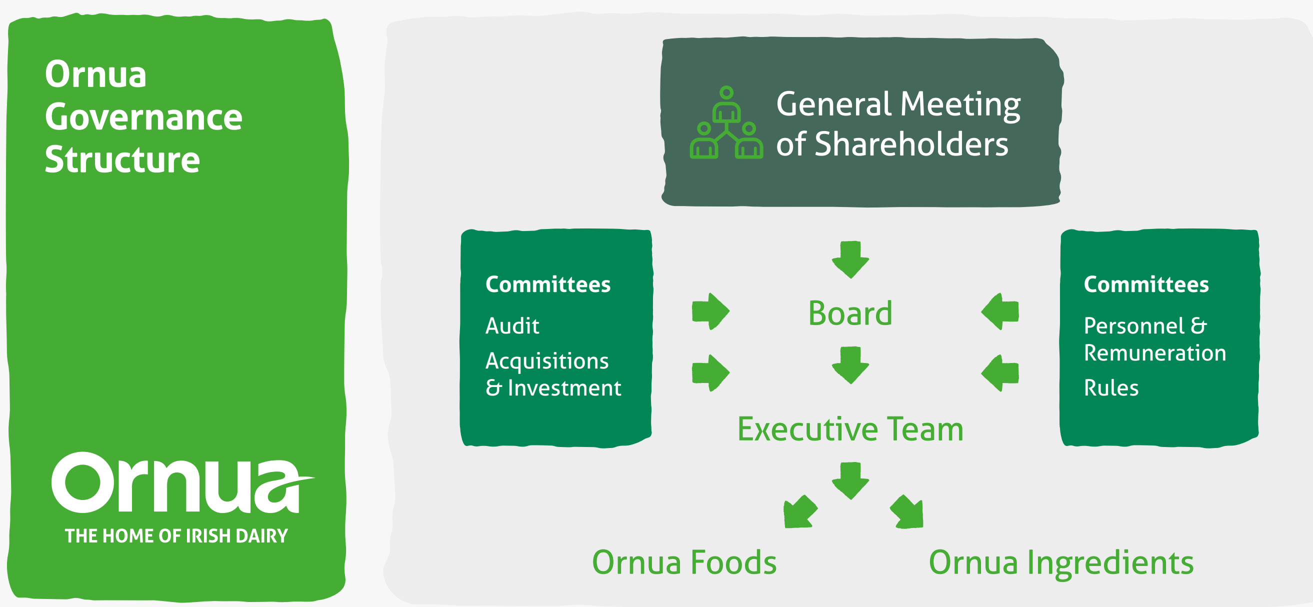
The Board has established a formal and rigorous process to evaluate its performance and the performance of its Committees.

Appointment and Induction

Board members are appointed or elected to serve for one or more terms of four years each. There is no restriction on re-appointment. The Chairman and Vice-Chairman are elected annually by the Board. Newly appointed Board members undergo a structured induction programme involving presentations and site visits to ensure that they have the necessary knowledge and understanding of the Group and its activities. Continued development is made available to the Board.

Conflicts of Interest and Business Conduct and Ethics

A register of Directors' interests is maintained. Directors make declarations of interests upon appointment, then again periodically during their term of office where a particular issue or event prompts a declaration of interest. A Code of Conduct for the Ornua Board of Directors addresses the standards required of each member in the performance of his/her functions as a member of the Board, including the management of conflicts of interest. Board members are also required to comply with the Ornua Code of Business Conduct and Ethics.



Corporate Governance (continued)

The Chairman

The non-executive Chairman's primary role is to ensure good corporate governance by ensuring that the Board is in full control of the Society's affairs and alert to its obligations to shareholders. He ensures that the Board is kept properly informed, is consulted on all issues reserved to it and that its decisions are made in a timely and considered way so as to enable the Directors to fulfil their duties. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer (CEO).

The Non-Executives

All non-executive Directors are entrusted to bring an independent judgement to bear on the issues the Board considers. Their wide-ranging experience, backgrounds and skill-sets ensure that non-executive Directors can contribute significantly to the Board and, specifically, engage in constructive debate and challenge management in relation to both the development of strategy and the performance of the Group against the goals set by the Board and the Society's stakeholders. The Chairman meets with the non-executive Directors informally during the year. These meetings, and other regular informal discussions, create the opportunity for valuable input from the non-executive Directors.

The CEO and Executive Team

The CEO has responsibility for ensuring that the organisation and its subsidiary companies operate effectively and to a high standard of probity. The appointment and removal of the CEO is a decision reserved for the Board, in accordance with the Rules of Ornua Co-operative Society.

The operational day-to-day management of the Group is delegated by the Board to the CEO. The CEO chooses to deliver the performance of executive functions by a team of Executive level employees. The CEO is responsible for leading, managing and controlling the Group, save for those matters reserved for decision by the Board and/or its Committees. The Executive team is subordinate to the Board.

The key responsibilities and tasks delegated to the Executive team include:

- implementing Board strategy, decisions and policy;
- monitoring compliance with legislative requirements and rules of the Society;
- ensuring effective performance and co-ordination of the Group's business activities within its divisions;
- overseeing operational performance, including health and safety and sustainability performance;
- monitoring and controlling financial performance; and
- approving expenditure and other financial commitments as delegated by the Board.

The Secretary

The Board is guided in the lawful and diligent performance of its functions by the Secretary who attends all Board meetings. The Secretary facilitates Board business through the provision of timely and appropriate advice on matters of law and governance. The Secretary recommends corporate governance policies and practices to the Chairman and the CEO for Board consideration, where appropriate, and advises the Board on appropriate procedures for the management of its meetings and the effective discharge of its duties. With the approval of the Chairman, and on the advice of the CEO, the Secretary sets the Board meeting agenda and order of business and follows up on all outstanding matters. The appointment and removal of the Secretary is a decision reserved to the Board. All Board Directors have access to the confidential counsel of the Secretary as and when necessary.

Board Committees

To provide effective and proper control, certain Board functions have been delegated to the following Board Committees.

Audit Committee

The Audit Committee is responsible for a wide range of matters including the scrutiny of the financial statements, significant financial reporting issues, the effectiveness of internal controls, the Group's risk management systems, recommendations to the Board as to the appointment of external auditors (including remuneration and other terms of engagement), and the ongoing management of, and the unrestricted access to these relationships, once they are established.

The Audit Committee monitors, through reports to it by both internal and external audit and management, the controls which are in force and monitors any remedial actions. Periodic updates of the work of the Audit Committee are provided to the Board to facilitate the Board's informed assessment of the Group's internal control system and risk management framework.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee is responsible for inter alia, setting the remuneration policy of the Board and determining the remuneration arrangements of the CEO and, on the recommendation of the CEO, his Senior Direct Reports. In addition, the Committee is responsible for the oversight of reward structures for the Society to ensure they are consistent with shareholder interest.

Corporate Governance (continued)

Acquisitions and Investment Committee
The Acquisitions and Investment Committee reviews and considers proposals from management in respect of significant acquisitions, investments, disposals and capital expenditure and, where appropriate, makes recommendations to the Board. A budgetary process and authorisation levels regulate capital expenditure. All investment projects, as well as material capital expenditure proposals, are evaluated by the Acquisitions and Investment Committee and are then escalated for Board consideration. Approved projects are reviewed periodically by the Acquisition and Investment Committee to ensure they are being implemented in accordance with the approvals received.

Rules Committee
The Rules Committee oversees the implementation of the Rules of the Society and reviews the Rules periodically to ensure that they are appropriate in their application, are consistent with Group strategic objectives and good corporate governance. Where necessary, it makes recommendations to the Board on any alteration to or amendment of the Rules.

Internal and External Audit

Internal Audit
The Internal Audit department is an integral function of the Group. The internal audit plan requires annual approval and periodic review by the Audit Committee. The results, recommendations and significant findings are reported to the Executive team via the Head of Internal Audit and are periodically summarised for the Audit Committee throughout the year. The Internal Audit function reports directly to the Chairman of the Audit Committee and the CEO thereby ensuring its independence and objectivity and is afforded unfettered access to these reporting lines and throughout the Group.

External Audit
The external auditors provide the Audit Committee (as delegated by the Board) with reports on the external audit of the Group. The Committee annually assesses the external auditors' independence and objectivity, the effectiveness of the external audit process, the provision of additional services and the level of non-audit fees.

Risk Management, Assurance and Internal Control

The Board acknowledges it has ultimate responsibility for risk management and internal controls. This includes the Group's risk governance structure, and determining the Group's risk appetite to ensure success in achieving its strategic objectives and maintaining an appropriate internal control environment. The Audit Committee has responsibility for reviewing the design and effectiveness of the Group's risk management and internal control systems to ensure an effective process exists for the identification, assessment and management of risk.

Risk Management Framework

The Risk Management strategy and policy set out the Group's attitude to risk. The Group has a clear framework for identifying and managing risk, at all levels of the business, to ensure we remain alert to the ever-changing environment in which we operate. The Group's risk assessment framework underpins a common language and approach to risk management and facilitates the early identification and assessment of the principal risks and uncertainties facing the Group today. By focusing on the early identification of business risks, the framework enables us to consider the appropriate mitigation steps or management actions required to eliminate the risk or to reduce the risk to an acceptable level. The Group business risk assessment process is carried out annually and involves the Executive team, senior business managers and Internal Audit. While the process is sponsored by the Group Finance Director and Chief Operating Officer, the Board and Audit Committee have a key oversight role.

Risk Monitoring and Reporting

On a quarterly basis, significant business units are requested to complete a formal risk review and submit their risk register of key business risks for Executive level review. The risk register template ensures consistency of approach in reporting the risks and helps to underpin a common language and approach to the risk management process. The process requires significant business units to rank their top risks by impact and likelihood of occurrence, and to continually assess the appropriateness of the risk mitigation steps in place. The key focus of this review is to ensure the Group's residual risks are within the scope of what the Board is willing to accept in order to achieve its strategic objectives. During the annual cycle, these risks are presented to the Audit Committee as a consolidated register of significant Group risks, along with management's key mitigations. This is in addition to ongoing business risk updates provided to the Audit Committee during the year.

Principal Risks and Uncertainties

Ornua operates in a fast moving, global foods market which is becoming more and more complex and challenging. The performance of the Group is influenced by a number of factors and is becoming increasingly exposed to a large variety of risks which need to be managed in order to achieve our strategic objectives. Where possible, the Group has policies, processes and controls in place to mitigate against these factors.

Corporate Governance (continued)

Some factors affecting results
The success of Ornua depends on its ability to further strengthen its position as a leading international dairy organisation, rewarding its customers and stakeholders through the delivery of high-quality, innovative products using world-class brands and superior customer service. These objectives are subject to a degree of seasonality or climatic factors which may have an adverse impact on Group operations.

Any major food safety issue or Irish dairy industry issue may result in a supply disruption or contamination of products and/or raw materials which would ultimately impact the Group's growth potential or ability to operate and have a serious impact on the Group's reputation and brands or our customer's brands. These may result in a loss of revenue growth momentum, however, Ornua is confident in the underlying strength of its key brands and its strong brand platform should continue to lead product innovation and market growth. The Group is committed to food safety and quality regulations and aims to employ best practice in its procurement procedures and across all its production facilities to maintain the highest standards.

As a global export business, the Group is mindful of geopolitical and policy developments which impact on the global trade environment. The withdrawal of the UK from the EU and international trade disputes generally can have a damaging displacement effect and undermine trade flows and business relations. The Group seeks to mitigate these developments through active monitoring and analysis, market and product diversification and customer engagement and relationship building.

The Group is highly responsive to the volatility of commodity markets and industry changes including the sustainable supply of raw materials to our businesses. Any adverse changes in these areas could have a negative impact on the Group's financial results. In order to minimise this risk, the Group employs experienced senior purchasing and commercial managers in this area to help manage the positioning of the businesses in this regard.

Current volatility in the global economy may adversely affect customer spending which could result in less demand for our products. Although the Group is unable to influence the global economic conditions, our diverse portfolio and the geographical spread of our businesses provides a certain level of mitigation in this regard.

The Group is also exposed to financial market volatility including currency fluctuation risks which are controlled via our centrally-operated Treasury function. In light of continued economic and financial volatility in the Eurozone, risks relating to the future of the Euro currency could impact our business. Furthermore, some trade receivables and large customer concentration risks give rise to credit risk, which is diversified based on our risk appetite, while the Group has trade credit insurance as a measure of last resort. In light of growing dairy price volatility, the Group has invested in trading and de-risking expertise to further protect the business.

Failure to execute, identify or properly integrate new acquisitions and/or divestitures could impact the overall financial performance of the Group.

The Group is largely reliant on timely and accurate information including numerical data from key software applications. These are required without disruption to enable an effective and efficient day-to-day decision making process to occur, and controls are in place for disaster recovery to minimise business interruptions.

The Group has controls in place to comply with environmental regulations which apply in all countries in which it operates. The Group is committed to growing its business in a sustainable manner, mindful of our impact on the environment. We take pride in the fact that our products are produced sustainably and this has become an inherent expectation of our key customers.

Ornua is subject to Health & Safety regulations in all countries in which it operates. Certain policies and procedures have been put in place to ensure the Group is compliant with each of these regulations and has ensured the protection of the safety and welfare of all employees and contractors.

As with any business, there is a risk of fraudulent activity, which the Group's control environment and anti-fraud programme is designed to mitigate.

The Group can be subject to legal claims arising through the normal course of business. The Group has put in place relevant policies and procedures to ensure there are valid defences against such claims.

As the Group continues its growth strategy to build new routes to market for Irish dairy produce, our business may be negatively impacted by political decisions, civil unrest, or any other developments in the countries in which we operate. This leads to heightened integration risks and is closely monitored and managed by the business.

The Group is dependent upon the quality, ability and commitment of key personnel in order to sustain, develop and grow the business in line with its key objectives. Failure to attract, retain and develop creative, committed and skilled employees may impact the Group's ability to achieve its strategic objectives.

Directors' Report for the period ended 30 December 2017

The Directors submit their report together with the audited financial statements for the period ended 30 December 2017.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with Irish law and regulations.

Irish law requires the Directors to prepare financial statements for each financial period giving a true and fair view of the state of the Society's assets, liabilities and financial position at the end of the financial period, and of its profit or loss for the financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

In preparing these 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;
- state whether the financial statements have been prepared in accordance with applicable accounting standard;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper books of account that disclose, with reasonable accuracy at any time, the financial position of the Society and enable them to ensure that the financial statements have been properly prepared in accordance with the requirements of the Industrial and Provident Societies Act, 1893 to 2014. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Books of Account

The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with the Group's obligation to keep proper books of account. The books of the Company are kept at the registered office of the Parent Society.

Going Concern

The Directors, after making enquiries, have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Principal Activities

Ornua is a dairy co-operative which markets and sells dairy products on behalf of its members; Ireland's dairy processors and, in turn, the Irish dairy farmer. Ornua is Ireland's largest exporter of Irish dairy products, exporting to c.110 countries worldwide. Headquartered in Dublin, it has annualised sales of over €2 billion and has a strong global team of c.2000. It operates from 19 business units worldwide, including 14 production facilities, and has sales and marketing teams working in-market across all four corners of the globe.

The Group is comprised of two divisions; Ornua Foods and Ornua Ingredients. Ornua Foods is responsible for the marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Forto and BEO milk powders. Markets are served by production facilities and in-market sales and marketing teams in Africa, Asia, Germany, Ireland, the UK, the rest of Europe, the Middle East and the US. Ornua Ingredients is responsible for the procurement of Irish and non-Irish dairy products and for the sale of dairy ingredients to food manufacturers and foodservice customers. Ornua Ingredients is supported by production facilities in Saudi Arabia, Spain, the UK, the US, and by in-market teams in Africa and the Middle East.

2017 Global Markets

Farm gate milk prices recovered strongly in 2017 after hitting a trough in mid-2016. European milk prices increased by over 45% between mid-2016 and the end of 2017. This was reflected in Irish milk prices which rose by over 50%, from 23 cpl to 35 cpl.

The recovery in milk prices from the second half of 2016 followed a period of price weakness which began in mid-2015 and eventually led to global milk supply easing back in H1 2016. While global demand stabilised and supply struggled to meed demand, the price of dairy commodities increased, which facilitated a recovery in milk prices. The supply and demand imbalance was especially evident for butter. The combination of reduced milk flows, poor SMP returns curtailing butter production, growing cream exports and solid demand, resulted in European butter stocks becoming extremely tight. As a result, European butter prices reached a high of €6,500 per MT in September. Even with SMP returns at historic lows, record butter prices and robust export demand for cheese meant that processor returns increased. This, in turn, led to a rise in milk prices from late 2016, which continued throughout the majority of 2017. Looking ahead to 2018, butter pricing, while significantly lower than in 2017, is likely to remain at a historically high level as stocks take time to replenish against the backdrop of weak SMP prices.

Directors' Report for the period ended 30 December 2017 (continued)

Financial Performance

The business delivered a strong trading performance in 2017, with revenue up 18% to €2.1 billion, EBITDA* up 25% to €53.8 million, and an operating profit* of €35.2 million, up 32%. It also achieved another year of record Irish purchase volumes of 338,000t. The Group closed the year with net cash of €0.3 million. In November 2017, it refinanced its bank facilities for another five years, increasing them to €610 million, leaving it well placed to support dairy industry expansion and to drive further growth across the Group.

The results reflect the strong product price returns paid to members and have facilitated it declaring a €15 million Members' Bonus, up from €9.5 million in 2016 (in addition a €5 million DPI related bonus was declared in 2016).

Building Scale & Capability

Ornua's focus in 2017 was on integration of previously acquired businesses, as well as considerable investment in new facilities and expanded production capabilities. In the UK it acquired and integrated F.J. Need into Group operations and have expanded the business's production capabilities. It opened a new innovation centre at CoreFX, a US ingredients business it acquired in 2016. It also successfully implemented a new foodservice strategy, resulting in strong growth opportunities both in the UK and Middle Eastern markets.

Ornua Deutschland's production facility at Neukirchen-Vluyn expanded, bringing total facility investment to €60 million; whilst at Kerrygold Park in Ireland, the scaling of its operational capability produced over 30,000t of butter in 2017.

Brands & Ingredients Performance

In 2017 Ornua continued to grow the strength of its brand portfolio in key markets. This translated into a record year for businesses in Germany and the US, with both reporting double-digit volume growth. 34 new product innovations were launched, including a new Kerrygold shredded cheese range in Germany. These launches are part of its strategy to extend the Kerrygold brand from a well-known butter brand into a €1 billion global dairy brand in the coming years.

Ornua Ingredients delivered record purchase volumes in 2017 and continued to grow its value-added routes to market for Irish dairy products. In the US, Ornua Ingredients North America had a record year and commissioned a new €2 million shred and dice line. In the Middle East, Ornua Ingredients expanded its white cheese products offering into the United Arab Emirates (UAE), Kuwait and Oman.

* Before exceptional items

2017 Operational Highlights

- Record year for Kerrygold in Germany and the US with double-digit volume growth
- Strategic acquisition and integration of UK cheese ingredients business; F.J. Need
- Expansion of Ornua Deutschland's production facility; bringing total facility investment €60 million
- Record year for Ornua Ingredients North America and €2 million shred and dice line commissioned
- Opening of an innovation centre in CoreFX, a US ingredients business
- Innovative white cheese ingredients products expanded to UAE, Kuwait and Oman markets
- 34 new product innovations launched, including a Kerrygold shredded cheese range in Germany
- Setting of 2021 operational sustainability targets; 15% reduction in carbon emissions per MT; 25% reduction in total food waste and 10% reduction in total waste water
- New five-year syndicated bank facilities of €610 million secured to support dairy industry growth

Innovation

Consumers' tastes are constantly evolving and, as a result, innovation is a key component of Ornua's strategy for growth, with innovation teams supporting both Ornua Foods and Ornua Ingredients. To support the global reach of many of Ornua's retail partners and manufacturing and foodservice customers, Ornua teams are based in innovation centres in Ireland and across Ornua's production facilities in Germany, Saudi Arabia, Spain, the UK and the US.

Building on a strong pipeline of new product development in 2016, innovative products contributed to 17% of Ornua's product portfolio in 2017. Ornua Foods innovation teams focused on strengthening the core butter and cheese range which supports the strategy of moving Kerrygold from a well-known butter brand into a global dairy brand.

Health & Safety

Ornua is committed to preventing harm and providing a safe and healthy working environment for its people and partners. This commitment starts with the Group Executive Team and extends to all employees across the business. The Group's goal is to be a best-in-class leader in the control and management of safety hazards in its work environments. It recognises that excellence in managing Health & Safety is essential to the long-term success, and sustainability, of a business.

Directors' Report for the period ended 30 December 2017 (continued)

Subsidiary Undertakings
A list of the significant trading subsidiary companies is included in Note 29 to the financial statements.

Executive and Directors' Remuneration
Executive remuneration at Ornua is subject to full oversight by the Board and specifically, its Personnel and Remuneration Committee. The Remuneration Committee has been delegated responsibility for the implementation of the remuneration policy of the Board, determining the remuneration arrangements for the Members of the Board, the CEO and Senior Executives. The Committee prepares its recommendations to ensure that Ornua can continue to attract and retain talented people in a highly competitive market. The process includes review and assessment against comparable organisations, ensuring that remuneration arrangements are consistent with Shareholder interest and the vision, mission and values of the Society. The resources of Independent Professional Advisers are used in the review and assessment process.

Directors' and Secretary's Shareholdings
The Directors and Secretary and their families had no interests in the shares of the Parent Society or any other Group company at any time during the period.

Political Donations
The Group did not make any political donations during the year (2016: €nil).

Corporate Governance
The Corporate Governance section on pages 38 to 41 sets out the Group's application of corporate governance principles, the Group's governance structure, the Group's system of risk management and internal control and the principal risks and uncertainties facing the Group.

Auditors
The Rules of the Society provide that the Auditor shall be appointed at the Annual General Meeting. The incumbent Auditor is eligible for reappointment.

Post Balance Sheet Events
There have been no significant events since the period end which require disclosure in the financial statements.

Directors' Report for the period ended 30 December 2017 (continued)

Board Members to End December 2017

Aaron Forde (i) (ii) (iii) (iv)	Chairman	Aurivo Co-operative Society Limited
Jim Russell (i) (ii) (iii) (iv)	Vice Chairman	Irish Co-operative Society Limited
Jim Bergin (iii) (iv)		Glanbia Ireland Limited
John Comer (iv)		Irish Creamery Milk Suppliers Association
Denis Cregan (ii) (iv)		Independent Non-Executive Director
John Daly (iii)		Tipperary Co-operative Creamery Limited
Michael Hanley (i)		Lakeland Dairies Co-operative Limited
Martin Keane (i)	Chairman of the Audit Committee	Glanbia Co-operative Society Limited
James Lynch (ii)		Dairygold Co-operative Society Limited
Dan MacSweeney (ii) (iv)	Retired December 2017	Carbery Food Ingredients Limited
Dermot O'Leary (i)		Carbery Food Ingredients Limited
Sean O'Leary (i)		Irish Farmers Association
Conor Ryan (ii)		Arrabawn Co-operative Society Limited
Pat Sheahan (ii)		Electoral Area
Jim Woulfe (iii) (iv)	Chairman of the Personnel & Remuneration Committee	Dairygold Co-operative Society Limited

Note: Jason Hawkins, from Carbery Food Ingredients Limited, was appointed to the Board with effect from 1 January 2018.

Committee Members as at 30 December 2017
(i) Member of the Audit Committee

(ii) Member of the Rules Committee

(iii) Member of the Personnel and Remuneration Committee

(iv) Member of the Acquisitions and Investment Committee

On behalf of the board of Directors

Aaron Forde Chairman 14 March 2018	Martin Keane Director

Independent Auditors' Report to the members of Ornua Co-operative Limited

Report on the audit of the financial statements

Opinion
In our opinion, Ornua Co-operative Limited's Group financial statements (the "financial statements"):

- give a true and fair view of the Group's assets, liabilities and financial position as at 30 December 2017 and of its profit and cash flows for the period then ended; and
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

We have audited the financial statements, included within the Annual Report, which comprise:

- the Group Balance Sheet as at 30 December 2017;
- the Group Income Statement for the period then ended;
- the Group Statement of Comprehensive Income for the period then ended;
- the Group Statement of Changes in Equity for the period then ended;
- the Group Cash Flow Statement for the period then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent Auditors' Report to the members of Ornua Co-operative Limited (continued)

Responsibilities for the financial statements and the audit
Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 42, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Group's members as a body in accordance with section 14 of the Industrial and Provident Societies Act 1893 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Industrial and Provident Societies Act, 1893 reporting
As required by section 13(2) of the Industrial and Provident Societies Act, 1893 we examined the parent society Balance Sheet showing the receipts and expenditure, funds and effects of the society, and verified the same with the books, deeds, documents, accounts and vouchers relating thereto, and found them to be correct, duly vouched, and in accordance with law.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
14 March 2018

Group Income Statement for the period ended 30 December 2017

	Notes	2017 €'000	2016 €'000
Turnover		**2,069,219**	1,749,367
Cost of sales		**(1,816,837)**	(1,511,904)
Gross profit		**252,382**	237,463
Selling and distribution expenses		**(154,459)**	(157,932)
Administration expenses - excluding amortisation		**(56,050)**	(46,989)
Administration expenses - amortisation		**(6,628)**	(5,931)
Operating profit before exceptional items		**35,245**	26,611
Exceptional items	4	**(2,081)**	(6,777)
Operating profit after exceptional items		**33,164**	19,834
Share of results of associates & joint ventures	11	**(62)**	650
Interest payable (net)	5	**(3,058)**	(3,708)
Net interest expense on defined benefit pension schemes	25	**(955)**	(997)
Profit on ordinary activities before taxation	2	**29,089**	15,779
Tax on profit on ordinary activities	6	**(10,673)**	(9,323)
Profit for the financial period		**18,416**	6,456
Profit attributable to:			
Owners of the parent		**18,759**	7,131
Non-controlling interest		**(343)**	(675)
		18,416	6,456

The notes on pages 53 to 84 form part of these financial statements.

On behalf of the board of Directors

Aaron Forde
Chairman
14 March 2018

Martin Keane
Director

Group Statement of Comprehensive Income for the period ended 30 December 2017

	2017 €'000	2016 €'000
Profit for the period	**18,416**	6,456
Other Comprehensive Income/(Expense)		
– Remeasurement of net defined benefit obligation	**4,183**	(11,757)
– Cash flow hedges		
– Change in value of hedging instrument	**4,416**	(5,258)
– Reclassification to profit and loss	**5,258**	(902)
– Currency translation differences	**(24,124)**	(10,948)
– Total tax on components of other comprehensive income/(expense)	**(2,134)**	2,604
Other comprehensive expense for the period, net of tax	**(12,401)**	(26,261)
Total comprehensive income/(expense) for the period	**6,015**	(19,805)
Total comprehensive income/(expense) attributable to:		
Owners of the parent	**6,407**	(18,985)
Non-controlling interest	**(392)**	(820)
	6,015	(19,805)

On behalf of the board of Directors

Aaron Forde
Chairman
14 March 2018

Martin Keane
Director

Group Balance Sheet as at 30 December 2017

	Notes	2017 € '000	2016 € '000
Fixed assets			
Intangible assets	8	**57,393**	60,016
Tangible assets	9	**183,082**	173,377
Associates & joint ventures	11	**1,808**	1,940
Loans to associates & joint ventures	11	**12,139**	12,278
Other investments	11	**295**	48
		254,717	247,659
Current assets			
Inventories	12	**549,567**	452,717
Debtors	13	**338,471**	265,411
Restricted cash	23	**3,968**	3,742
Cash and bank balances	22	**59,282**	57,155
		951,288	779,025
Creditors: amounts falling due within one year	14	**(577,693)**	(448,876)
Net current assets		**373,595**	330,149
Total assets less current liabilities		**628,312**	577,808
Creditors: amounts falling due after one year	17	**(68,054)**	(7,434)
Post employment benefits	25	**(40,860)**	(44,962)
Provision for liabilities	19	**(13,821)**	(21,890)
Net assets		**505,577**	503,522
Capital and reserves			
Called up share capital	20	**19,607**	19,607
Revenue reserves	20	**465,647**	466,414
Cash flow hedging reserve	20	**3,730**	(4,372)
Share premium	20	**32**	32
Capital levy account	20	**256**	256
Members' equity interest (before annual bonus fund and redeemable loan stock)		**489,272**	481,937
Redeemable loan stock	7	**16,542**	20,502
Members' funds		**505,814**	502,439
Non-controlling interest		**(237)**	1,083
		505,577	503,522

The notes on pages 53 to 84 form part of these financial statements.

On behalf of the board of Directors

Aaron Forde
Chairman
14 March 2018

Martin Keane
Director

Group Statement of Changes in Equity for the period ended 30 December 2017

	Share Capital € '000	Share Premium € '000	Cash Flow Hedging Reserve € '000	Capital Levy Account € '000	Revenue Reserves € '000	Annual Bonus Fund € '000	Redeemable Loan Stock € '000	Members Equity Interest € '000	Non-controlling Interests € '000	Total € '000
At 26 December 2015	19,569	32	713	256	482,235	4,000	19,016	525,821	1,452	527,273
Profit for the period	–	–	–	–	7,131	–	–	7,131	(675)	6,456
Other comprehensive income/(expense) for the period:										
Remeasurement of net defined benefit obligation	–	–	–	–	(11,757)	–	–	(11,757)	–	(11,757)
Cash flow hedges										
– Change in value of hedging instruments	–	–	(5,258)	–	–	–	–	(5,258)	–	(5,258)
– Reclassification to profit and loss	–	–	(902)	–	–	–	–	(902)	–	(902)
Currency translation differences	–	–	–	–	(10,803)	–	–	(10,803)	(145)	(10,948)
Total tax on component of other comprehensive income	–	–	1,075	–	1,529	–	–	2,604	–	2,604
Transfers to/from annual bonus fund	–	–	–	–	–	(4,000)	4,000	–	–	–
Recognition of call option liability (note 17)	–	–	–	–	(1,921)	–	–	(1,921)	–	(1,921)
Non-controlling interest arising on business combination	–	–	–	–	–	–	–	–	451	451
Redemption of loan stock (note 7)	–	–	–	–	–	–	(2,476)	(2,476)	–	(2,476)
Issue of shares	38	–	–	–	–	–	(38)	–	–	–
At 31 December 2016	**19,607**	**32**	**(4,372)**	**256**	**466,414**	**–**	**20,502**	**502,439**	**1,083**	**503,522**
Profit for the period	–	–	–	–	18,759	–	–	18,759	(343)	18,416
Other comprehensive income/(expense) for the period:										
Remeasurement of net defined benefit obligation	–	–	–	–	4,183	–	–	4,183	–	4,183
Cash flow hedges										
– Change in value of hedging instruments	–	–	4,416	–	–	–	–	4,416	–	4,416
– Reclassification to profit and loss	–	–	5,258	–	–	–	–	5,258	–	5,258
Currency translation differences	–	–	–	–	(24,075)	–	–	(24,075)	(49)	(24,124)
Total tax on component of other comprehensive income	–	–	(1,572)	–	(562)	–	–	(2,134)	–	(2,134)
Transfer on exercise of call option (note 10)	–	–	–	–	928	–	–	928	(928)	–
Redemption of loan stock (note 7)	–	–	–	–	–	–	(3,960)	(3,960)	–	(3,960)
At 30 December 2017	**19,607**	**32**	**3,730**	**256**	**465,647**	**–**	**16,542**	**505,814**	**(237)**	**505,577**

A description of each reserve account is included in note 20.

On behalf of the board of Directors

Aaron Forde
Chairman
14 March 2018

Martin Keane
Director

Group Cash Flow Statement for the period ended 30 December 2017

	Notes	2017 €'000	2016 €'000
Cash generated from operations	21	**7,120**	141,118
Income tax paid		**(7,652)**	(15,059)
Net cash (outflow)/inflow from operating activities		**(532)**	126,059
Cash flows from investing activities			
Purchases of property, plant and equipment	9	**(26,327)**	(33,711)
Purchases of intangible assets	8	**(412)**	(325)
Proceeds from sale of property, plant and equipment		**482**	201
Purchase of subsidiary undertakings (net of cash acquired)	10	**(19,778)**	(6,017)
Investments in and loans to joint venture		**(833)**	–
Purchase of other investments		**(247)**	–
Interest received		**180**	387
(Increase)/decrease in restricted cash	23	**(226)**	3,574
Net cash used in investing activities		**(47,161)**	(35,891)
Cash flows from financing activities			
Interest paid		**(4,629)**	(5,676)
Proceeds from/(repayment of) borrowings		**60,000**	(175,000)
Payments in respect of loan stock redeemed		**(4,803)**	(4,901)
Net cash generated from/(used in) financing activities		**50,568**	(185,577)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts in the period		**2,875**	(95,409)
Balance at beginning of period		**57,155**	157,726
Foreign exchange losses		**(748)**	(5,162)
Cash and cash equivalents at the end of period	22	**59,282**	57,155

On behalf of the board of Directors

Aaron Forde
Chairman
14 March 2018

Martin Keane
Director

Notes to the Financial Statements

1. Statement of accounting policies

a) Statement of Compliance

These financial statements have been prepared in accordance with applicable accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'). The financial statements have been prepared on the going concern basis under the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below and the measurement of the net defined benefit pension liabilities at the fair value of the plan assets less the present value of the defined benefit obligation. The 2017 financial statements are for a 52 week period (2016: 53 weeks).

b) Trading policy

In general it is the Parent Society's trading policy to provide a return to supplying members equivalent to net proceeds realised in each product group. Accordingly the Parent Society's purchase prices are subject to regular revision to reflect average market realisations. Arising from this policy, a liability is recognised in the accounts for any amounts outstanding to members.

c) Basis of consolidation

The financial statements of the Parent Society and its subsidiary undertakings for the period from 1 January 2017 to 30 December 2017 are incorporated in the Group financial statements.

(i) Subsidiary undertakings are included in the financial statements from the date on which control is obtained and cease to be consolidated from the date on which control is lost by the Group. Subsidiaries are all entities where the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(ii) An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. Joint ventures are entities which the Group jointly controls with one or more entities. The results of associates and joint ventures are accounted for using the equity method of accounting.

(iii) Non-controlling interests represent the proportion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised directly in equity. Gains or losses on disposals to non-controlling interests, without a loss of control, are also recognised directly in equity.

(iv) A discontinued operation is a component of an entity that has been disposed of and:
a. represents a separate major line of business or geographical area of operations; or
b. was part of a single co-ordinated plan to dispose of a separate line of business or geographical area of operations; or
c. was a subsidiary acquired exclusively with a view to resale.

(v) When the Group ceases to have control any gain or loss is recognised in the Income Statement. The cumulative amounts of any difference on translation, recognised in equity, are not included in the gain or loss on disposal. The gain or loss also includes amounts included in Other Comprehensive Income that are required to be reclassified to the Income Statement. Where control of a subsidiary is achieved in stages, the initial acquisition that gave the Group control is accounted for as a business combination. Thereafter where the Group increases its controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any difference between the fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made to the carrying value of assets, liabilities or provisions for contingent liabilities.

(vi) Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated upon consolidation.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

d) Revenue recognition

Revenue represents the fair value of consideration received or receivable for goods and services supplied to external customers exclusive of trade discounts and value added tax. The Group recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the amount of revenue can be measured reliably; and (c) it is probable that future economic benefits will flow to the Group.

Interest income is booked on an accruals basis, by reference to the principal outstanding and at the effective interest rate over the period to expected maturity.

e) Exceptional items

The Group has adopted an Income Statement format which highlights significant items within the Group's results for the period. Exceptional items are those items of income and expense that the Group considers are material and/or of such a nature that their separate disclosure is relevant to a better understanding of the Group's financial performance. Judgement is used by the Group in assessing the particular items which, by virtue of their materiality and/or nature, are disclosed in the Group Income Statement and related notes as exceptional items.

f) Inventory

Inventories are valued at the lower of cost and estimated selling price less costs to sell. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises purchase price, including taxes and duties and transport costs attributable to bringing the inventory to its present location and condition. Selling price less costs to sell is based on contracted or estimated selling prices, less selling and distribution expenses. At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, an impairment provision is raised to reduce the carrying value of inventory.

g) Private storage aid income

The Parent Society places inventory in an EU scheme called Private Storage Aid during certain months of the year. The income earned from the EU on this inventory is accounted for within revenue as it is earned.

h) Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes original purchase price, costs directly attributable to bringing the asset to its location and working condition for its intended use.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Income Statement.

Depreciation is not provided on freehold land. Depreciation on other tangible fixed assets is provided on a straight-line basis as appropriate to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Freehold buildings: 2% to 5%
Leasehold land and buildings: written off over the term of the lease or its estimated useful life, whichever is the lower
Plant and equipment: 5% to 33%
Motor vehicles: 10% to 33%

The assets residual values and useful lives are reviewed and adjusted, if appropriate in each reporting period. The effect of any change is accounted for prospectively. Provision is made for any impairment of tangible fixed assets. Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

i) Leased assets

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the Income Statement on a straight line basis over the lease term. Incentives received to enter into an operating lease are credited to the Income Statement on a straight line basis over the period of the lease.

j) Grants

Capital based grants are accounted for in the period they are received and are treated as deferred credits. These grants are released to the Income Statement on the same basis as the related assets are depreciated.

k) Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree plus costs directly attributable to the business combination. Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where the contingent consideration is not considered probable or can't be measured reliably but subsequently becomes probable and measurable or contingent consideration previously recognised is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities is recognised as goodwill. On acquisition, goodwill is allocated to cash generating units ("CGU") that are expected to benefit from the combination.

Goodwill is amortised on a straight line basis over its useful economic life, subject to a maximum of 15 years. Goodwill is assessed for impairment when there are indications of impairment and any impairment is charged to the Income Statement. Reversals of impairment are recognised when the reason for the impairment no longer applies.

Goodwill is amortised over a period greater than five years because it arises on the acquisition of profitable businesses which are expected to remain profitable over the long term. The Group shall recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the Group shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date to reflect new information obtained.

l) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the depreciable amount of the assets to their residual value over their expected useful lives as follows;

Software 3-5 years.

Other intangibles include supply contracts, customer relationships, trade names and production permits and are amortised over periods ranging from 5-22 years.

Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:
– The technical feasibility of completing the software so that it will be available for use or sale.
– The intention to complete the software and use or sell it.
– The ability to use the software or to sell it.
– How the software will generate probable future economic benefits.
– The availability of adequate technical, financial and other resources to complete the development and to use or sell the software.
– The ability to measure reliably the expenditure attributable to the software during its development.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

l) Intangible assets (continued)
Acquired software costs are recognised as an intangible asset at their purchase price and amortised over the estimated economic useful life of the asset.

If there is an indication that there has been a significant change in amortisation rate or residual value of an intangible asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

m) Research and development
Research and development expenditure is written off to the Income Statement in the period in which it is incurred.

n) Employee benefits
(i) Short term benefits
Short term benefits, including holiday pay are recognised as an expense in the period in which the service is received.

(ii) Pension obligations
The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further amounts. A defined benefit plan is a post-employment plan other than a defined contribution plan.

(iii) Termination benefits
Termination benefits are payable when employment is terminated before normal retirement date or whenever an employee is expected to accept voluntary redundancy. The Group recognises these costs when it is demonstrably committed to terminating the employment of current employees in line with a formal plan, or providing termination benefits as a result of the expected take up of an offer for voluntary redundancy.

(iv) Defined contribution plans
Contributions to defined contribution plans are recognised as an expense in the Income Statement as incurred.

(v) Defined benefit plans
The Group's net obligation in respect of defined benefit plans (both funded and unfunded schemes) is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. When the calculation of the defined benefit obligation and the fair value of the plan assets results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest are disclosed as "Remeasurement of net defined benefit liability".

The cost of the defined benefit plan recognised in the Income Statement comprises;
(a) the increase in pension benefit liability arising from employee service during the period; and
(b) the cost of plan introductions, benefit changes, curtailments and settlements.

Negative past service costs are recognised when benefits under the defined benefit pension schemes are modified and such modifications are approved by the Pensions Board.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

n) Employee benefits (continued)
(v) Defined benefit plans (continued)
The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. The cost is recognised in the Income Statement as a finance cost.

(vi) Other long term employee benefits
The Group operates a Long Term Incentive Plan, which provides for awards to be granted to a limited number of executives and senior management as nominated by the Chief Executive and approved by the Personnel and Remuneration Committee. The value of awards granted, is primarily derived from an adjusted Group EBIT calculation adjusted to reflect product prices returned to members, members bonuses and some other variables. The total amount expected to be paid out under the scheme, is expensed over the vesting period, which is three years. At each balance sheet date the Group revises its estimate of the expected cost for both actual adjusted EBIT out-turn and forecast out-turn, with the adjustment recognised in the Income Statement.

o) Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity.

(i) Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that that have been enacted or substantively enacted by the reporting date. Management periodically evaluates positions in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

(ii) Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax is not discounted. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised when income or expenses from a subsidiary, associate or joint venture have been recognised, and will be assessed for tax in a future period, except where:
– the Group is able to control the reversal of the timing difference; and
– it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

p) Provisions and contingent liabilities
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the Income Statement in the period it arises.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

p) Provisions and contingent liabilities (continued)
A provision for restructuring is recognised when the Group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring. Insurance provisions are recognised to cover claims including claims which are known to be incurred but not reported at period end. Provision for onerous contracts are made when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

q) Borrowings and cash and cash equivalents
Interest bearing loans and overdrafts are recognised initially at fair value, which is the proceeds received, net of transaction costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. All borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts when applicable are shown within borrowings in current liabilities.

r) Foreign currency translation
(i) Functional and presentation currency
The consolidated financial statements are presented in Euro, rounded to thousands, which is the Parent Society's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency that reflects the primary economic environment in which the entity operates ('the functional currency').

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges or hedges of net investments in foreign operations. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

r) Foreign currency translation (continued)
(ii) Transactions and balances (continued)
Rates used for translation of results and net assets into Euro:

	Average Rates		Period end Rates	
€ 1 =	**2017**	2016	**2017**	2016
US$	**1.1298**	1.1065	**1.1979**	1.0515
GBP£	**0.8763**	0.8178	**0.8877**	0.8521
SAR	**4.2340**	4.1476	**4.4898**	3.9405
CNY	**7.6280**	7.3454	**7.7978**	7.3016

(iii) Group companies
The results and financial position of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;

(b) goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate;

(c) income and expenses for each Income Statement are translated at actual exchange rates or when they are a reasonable approximation at average exchange rates; and

(d) all resulting exchange differences are recognised in Other Comprehensive Income and presented within revenue reserves in equity.

s) Impairment of non-financial assets
At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication of impairment the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or Cash Generating Unit (CGU). The impairment loss recognised is the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows of other assets or groups thereof.

If a non-financial asset is impaired the impairment loss is the difference between the carrying amount and its recoverable amount.

The impairment loss is recognised in the Income Statement. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The impairment reversal is recognised in the Income Statement.

t) Share capital and redeemable loan stock
Ordinary shares are classified as equity.

Redeemable loan stock is included in equity until any redemption is ratified by the Board. On ratification, the amount to be redeemed is moved from equity to liabilities.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

u) Related party transactions
The Group discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

v) Financial instruments
(i) Financial assets
Basic financial assets including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the transaction constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets original effective interest rate. The impairment loss is recognised in the Income Statement. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying value does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Income Statement.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures are initially measured at fair value which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the Income Statement except where the investment is in equity instruments that are not publically traded and whose fair values cannot be measured reliably, in which case the investments are measured at cost less impairment.

(ii) Financial liabilities
Basic financial liabilities, including trade and other payables and bank loans are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost using the effective interest method.

(iii) Derivatives
Derivatives including foreign exchange contracts are not basic financial instruments. Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in the Income Statement unless they are part of a hedging arrangement.

(iv) Hedging arrangements
Derivative financial instruments are mainly used to manage exposures to foreign exchange/price risks. The Group designates certain derivatives as hedges of the variability in cash flow attributable to a particular risk associated with assets and/or liabilities or highly probable forecast transactions (cash flow hedges). The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on reporting dates, of the effectiveness of the hedge in offsetting changes in cash flows of hedged items. The fair value of a hedging derivative asset is classified as a current asset. The fair value of a hedging derivative liability is classified as a creditor falling due within one year or after one year based on the remaining maturity of the hedge.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

v) Financial instruments (continued)
(v) Cash flow hedges
The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income and presented in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified to the Income Statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in OCI at that time is recognised in the Income Statement when the forecast transaction to which it relates occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately reclassified to the Income Statement.

(vi) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of such derivative instruments are recognised immediately in the Income Statement.

(vii) Net investment hedges
Where foreign currency borrowings provide a hedge against a net investment in a foreign operation, to the extent that the hedge is effective foreign exchange differences are recognised in Other Comprehensive Income and presented within revenue reserves.

(viii) Put/call option liabilities
Put/call option liabilities arising as part of business combinations are recognised at fair value as a financial liability with a corresponding entry to controlling equity. Such liabilities are classified within creditors falling due within one year or after one year based on the expected payment date. Any changes in the fair value of such options in the year are recognised in the Income Statement.

w) Use of judgements in applying the Group's accounting policies
The preparation of financial statements in conformity with FRS 102 requires the use of significant judgements, estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Actual results may differ from these estimates. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, relate primarily to accounting for deferred income tax, retirement benefit obligations, inventory impairments and provisions for onerous contracts.

Deferred income tax
Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. Significant judgement is used when assessing both the extent to which deferred tax assets should be recognised and the amount to be recognised, with consideration given to the timing and level of future taxable income in the relevant tax jurisdiction.

Retirement benefit obligations
The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include, inter alia, the discount rate, inflation rate, salary growth, and longevity, all of which are key judgements. Advice is sourced from independent actuaries in selecting suitable assumptions.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

w) Use of judgements in applying the Group's accounting policies (continued)

Inventory impairments / provision for onerous contracts

It is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of the inventory. The Group provides for onerous contracts when the revenues from a sales contract do not cover the cost of completing the contract.

2. Profit on ordinary activities before taxation is stated after charging/(crediting):

	2017 €'000	2016 €'000
Depreciation (note 9)	**11,957**	10,540
Amortisation of intangible assets (note 8)	**6,628**	5,931
Operating lease expense	**2,554**	2,241
Auditors' remuneration - audit fee	**625**	552
Reclassification of prior period fair value losses/(gains) on derivatives	**5,258**	(902)
Impairment of trade receivables - credit	**(237)**	(822)
Exchange differences - charge	**802**	1,150

3. Employees and remuneration

	2017 No.	2016 No.
The average number of persons employed by the Group is analysed into the following categories:		
Production	**1,331**	1,256
Selling and distribution	**410**	326
Administration	**427**	333
	2,168	1,915

Notes to the Financial Statements (continued)

3. Employees and remuneration (continued)

The staff costs are comprised of:

	2017 €'000	2016 €'000
Wages and salaries* (including termination benefits of €2.1m (2016: €0.3m))	**88,294**	78,096
Social welfare costs	**7,903**	7,445
Pension costs	**4,129**	4,032
Staff costs included in operating profit	**100,326**	89,573
Pension - other finance costs (net)	**955**	997
Total charged to Income Statement	**101,281**	90,570
Actuarial (gain)/loss on defined benefit pension schemes (net of deferred taxation)- charged to comprehensive income	**(3,621)**	10,228
Total aggregate payroll costs	**97,660**	100,798

* These costs include long term incentive plan costs/(credits)

These costs are recognised in the following line items in the Income Statement and Statement of Comprehensive Income respectively:

	2017 €'000	2016 €'000
Income Statement		
Cost of sales	**43,564**	41,659
Selling and distribution expenses	**23,155**	19,929
Administration expenses	**31,461**	27,985
Exceptional items	**2,146**	–
Included in operating profit	**100,326**	89,573
Other finance costs (net)	**955**	997
Total charged to Income Statement	**101,281**	90,570
Statement of Comprehensive Income		
Actuarial (gain)/loss on defined benefit pension schemes (net of deferred tax)	**(3,621)**	10,228
Total aggregate payroll costs	**97,660**	100,798

Notes to the Financial Statements (continued)

4. Exceptional items

	2017 €'000	2016 €'000
Restructuring costs (i)	**(3,663)**	(1,777)
Gain on exercise of call option (ii)	**1,582**	–
Net cost in relation to fire at Spanish plant (iii)	**–**	–
Bonus payable to members out of the DPI gain (iv)	**–**	(5,000)
	(2,081)	(6,777)

2017

(i) During the period the Group incurred restructuring costs (including redundancy and consultancy costs) in its Irish, UK and Middle East operations.

(ii) During the period the Group exercised its option to acquire the 25% of Shanghai En Bo Lu Food Co, Limited China (Ambrosia Dairy) that it did not already own. The amount paid on exercise of the option was €2.0m and the excess of the liability previously recognised for the option over the exercise price is recognised as a gain in the period.

(iii) On 5 November 2017 there was a fire at the Group's Spanish production plant. The fire destroyed all the plant & equipment as well as the inventory stored or under production at the plant, as well as the building in which they were located and which was leased.

The fire destroyed plant and equipment with a book value of €3.8m, stock with a book value of €3.5m and the Group also incurred business interruption costs as a result of the fire. Although the insurance companies are still assessing the quantum of damages, in view of the information available, the Company's Directors consider that the insurance policies in place provide sufficient cover for both the material damages at the facilities, including plant & equipment and inventories, and loss of earnings brought about by the fall in sales and the additional costs that the Company may incur to recover sales as a result of the fire, for an 18 month period as from the date of the fire. As the ultimate insurance proceeds has not been quantified to a high degree of certainty, a no gain/no loss position has been recorded in these financial statements. However the Group is satisfied that its insurance policies will at least cover the cost of the assets destroyed and the business interruption costs incurred and to be incurred.

2016

(i) During the period the Group incurred restructuring costs (including redundancy and consultancy costs) in its UK operations.

(iv) The Board of Ornua Co-operative agreed to pay an additional cash bonus of €5m to members financed by the gain arising on the 2015 sale of DPI. This is in addition to the €15m bonus approved in 2015. This additional bonus of €5m was approved in 2016 and was paid in April 2017.

Notes to the Financial Statements (continued)

5 Interest payable (net)

	2017 €'000	2016 €'000
Interest payable on bank loans and overdrafts:		
Repayable within 5 years, other than by instalments	**4,176**	5,014
Interest receivable	**(1,118)**	(1,306)
	3,058	3,708

6. Tax on profit on ordinary activities

	2017 €'000	2016 €'000
Analysis of taxation charge in the period		
Current tax		
Irish corporation tax on the profit for the period	**–**	98
	–	98
Foreign tax		
Foreign corporation tax on profit for the period	**9,375**	7,488
Adjustments in respect of previous periods	**55**	999
	9,430	8,487
Total current tax	**9,430**	8,585
Deferred tax		
Origination and reversal of timing differences	**1,411**	872
Impact of change in tax rates	**(168)**	(134)
Tax on profit on ordinary activities	**10,673**	9,323
Tax expense/(income) included in Other Comprehensive Income	**2,134**	(2,604)

Notes to the Financial Statements (continued)

6. Tax on profit on ordinary activities (continued)

Reconciliation of effective tax rate
The total tax charge for the period is different from the standard rate of corporation tax in Ireland of 12.5%. The differences are explained below.

	2017 €'000	2016 €'000
Profit on ordinary activities before taxation	**29,089**	15,779
Profit on ordinary activities at the standard rate of corporation tax in Ireland of 12.5%	**3,636**	1,972
Effects of:		
Foreign rates of tax different from Irish rates	**7,150**	5,579
Non utilisation of tax losses (net)	**1,252**	1,914
Expenses/income not deductible/taxable (net)	**95**	302
Movement in other timing differences	**(1,515)**	(1,443)
Adjustments in respect of prior periods	**55**	999
Total tax	**10,673**	9,323

The only significant change during 2017 in the tax rates applying to the Group's subsidiaries was the change in the UK corporation tax rate from 20% to 19% during 2017.

7. Annual bonus fund, redeemable loan stock and cash bonus

(a) Annual bonus fund and redeemable loan stock
The Board is empowered under the Rules of the Ornua Co-operative Limited ("The Rules") to set up an annual bonus fund and issue bonus shares and redeemable loan stock to the members based upon purchases of dairy products during the period from members. On an annual basis, an amount may be transferred from revenue reserves to the annual bonus fund in the Group's financial statements. The amounts allocated to redeemable loan stock (via a transfer to the annual bonus fund) in 2017 is €Nil (2016: €Nil).

Following the ratification of the amount to be transferred to the annual bonus fund and the calculation of each member's individual share, the annual bonus fund is then applied in issuing, as fully subscribed bonus shares and convertible redeemable loan stock in the ratio of one share per each ninety nine units of convertible redeemable loan stock. These bonus shares and convertible redeemable loan stock are then issued to the holders of the A and B ordinary shares.

Members are entitled, at any time after the expiry of five years from the date of any issue of the units of convertible redeemable loan stock, to apply to the Board so as to have the loan stock redeemed. The Board has discretion as to whether, and to what extent the loan stock shall be redeemed. However, in the case of all approved redemptions they shall be paid in instalments of 50% in the first year and 10% in each of the following five years. When the redemption is ratified the value of the cash payment is reclassified as a liability.

During the period, the Board decided to redeem loan stock to the value of €4.0m (2016: €2.5m) issued in respect of the 2012 financial period, 50% was paid in cash (the rest was included in creditors) and when combined with cash payments relating to previous years resulted in total cash payments of €4.8m in 2017 (2016: €4.9m).

Notes to the Financial Statements (continued)

7. Annual bonus fund, redeemable loan stock and cash bonus (continued)

The movement in the redeemable loan stock balance during the period was as follows:

	2017 €'000	2016 €'000
At beginning of period	**20,502**	19,016
Transferred from annual bonus fund	**–**	4,000
Redemption/issue of loan stock/share capital	**(3,960)**	(2,514)
At end of period	**16,542**	20,502

(b) Total bonuses payable

	2017 €'000	2016 €'000
Annual cash bonus (charged to operating profit)	**15,000**	9,500
Special DPI related bonus (charged to exceptional items)	**–**	5,000
	15,000	14,500

8. Intangible assets

	Goodwill 2017 €'000	Other Intangibles 2017 €'000	Computer Software 2017 €'000	Total 2017 €'000
Cost				
At beginning of period	79,877	26,902	3,687	110,466
Additions in the period	–	–	412	412
Transfer from tangible assets (note 9)	–	–	850	850
Arising on acquisition of business (note 10)	4,744	2,673	–	7,417
Translation adjustment	(6,151)	(868)	(172)	(7,191)
	78,470	28,707	4,777	111,954
Amortisation				
At beginning of period	40,505	8,800	1,145	50,450
Amortised during the period	3,686	2,285	657	6,628
Translation adjustment	(2,201)	(280)	(36)	(2,517)
	41,990	10,805	1,766	54,561
Net book amount				
At end of period	**36,480**	**17,902**	**3,011**	**57,393**
At beginning of period	**39,372**	**18,102**	**2,542**	**60,016**

The Group expensed €4.7m in research and development expenditure in the period (2016: €4.6m). Amortisation is classified within administration expenses in the Income Statement. The remaining amortisation period of the goodwill ranges from 8-14 years. The remaining amortisation period of other intangibles ranges from 6-20 years.

Notes to the Financial Statements (continued)

9. Tangible assets

	Land and Buildings				
	Freehold Land €'000	Freehold Buildings €'000	Leasehold Buildings €'000	Plant Equipment and Vehicles €'000	Total €'000
Cost					
At beginning of period	6,950	110,396	176	155,690	273,212
Reclassification	188	2,972	–	(3,160)	–
Additions in the period	–	3,999	–	22,328	26,327
Arising on business combinations (note 10)	165	4,428	–	3,688	8,281
Assets destroyed in fire (note 4)	–	–	–	(4,698)	(4,698)
Disposals in the period	–	–	–	(2,390)	(2,390)
Transfer to intangibles (note 8)	–	–	–	(850)	(850)
Translation adjustment	(433)	(4,575)	(10)	(6,324)	(11,342)
	6,870	117,220	166	164,284	288,540
Depreciation					
At beginning of period	–	24,895	127	74,813	99,835
Charge for the period	–	2,530	8	9,419	11,957
Disposals in the period	–	–	–	(1,966)	(1,966)
Assets destroyed in fire (note 4)	–	–	–	(875)	(875)
Translation adjustment	–	(720)	(5)	(2,768)	(3,493)
	–	26,705	130	78,623	105,458
Net book amount					
At end of period	**6,870**	**90,515**	**36**	**85,661**	**183,082**
At beginning of period	**6,950**	**85,501**	**49**	**80,877**	**173,377**

The buildings, plant, equipment and vehicles are insured at a value of €319.4m (2016: €269.3m). €10m (2016: €10m) of property, plant and equipment has been pledged as security.

Notes to the Financial Statements (continued)

10. Acquisition of businesses

In March 2017 the Group acquired F.J. Need (Foods) Limited, the Cheshire-based cheese ingredients company.

	2017 Fair Value €'000
Fair value of the net assets acquired at date of acquisition were as follows	
Intangible assets (excluding goodwill) (note 8)	**2,673**
Tangible assets (note 9)	**8,281**
Inventory	**2,733**
Debtors	**9,408**
Cash	**261**
Creditors	**(9,926)**
Deferred tax	**(832)**
Net assets acquired	**12,598**
Goodwill arising on acquisition (note 8)	**4,744**
Total acquired	**17,342**
Satisfied by:	
Cash consideration (includes €0.8m of acquisition costs)	**17,342**
Net consideration paid in 2017:	
On current period subsidiary acquisition	**17,342**
On current period acquisition of non-controlling interest*	**2,030**
Deferred consideration on prior period acquisitions	**667**
Cash acquired**	**(261)**
	19,778

The Group recognised €0.2m of fair value adjustments on the assets acquired (€0.1m in relation to inventory and €0.1m in relation to debtors). The goodwill arising on the 2017 acquisition is being amortised over 15 years.

* During the period the Group exercised its option and paid €2.0m to acquire the 25% of Shanghai En Bo Lu Food Co, Limited China (Ambrosia Dairy) that it did not already own.
** Cash acquired as part of the acquisition of F.J. Need (Foods) Limited.

Notes to the Financial Statements (continued)

11. Associates, joint ventures & other investments

	2017 €'000	2016 €'000
Associates & joint ventures		
At beginning of period	**1,940**	1,205
Additions in the period	**359**	–
Share of (loss)/profit after tax during the period	**(62)**	650
Translation adjustment	**(429)**	85
At end of period	**1,808**	1,940

	€'000	€'000
Loans to associates & joint ventures		
At beginning of period	**12,278**	10,837
Additions in the period	**1,416**	931
Translation adjustment	**(1,555)**	510
At end of period	**12,139**	12,278

	€'000	€'000
Other investments		
At beginning of period	**48**	48
Additions in the period	**247**	–
At end of period	**295**	48

12. Inventories

Inventories at period end primarily consist of finished goods for consumption. The amount of inventories recognised as an expense in 2017 was €855m (2016: €810m).

Impairments of inventories recognised within cost of sales in 2017 were €22.0m (2016: reversals of impairments of €13.3m).

Notes to the Financial Statements (continued)

13. Debtors

	2017 €'000	2016 €'000
Due within one year:		
Trade debtors (i) (iii)	**289,540**	237,397
Prepayments	**8,967**	9,903
Derivative financial instruments	**10,558**	1,167
Corporation tax debtors	**839**	1,067
Other debtors	**22,099**	7,463
	332,003	256,997
Due after one year:		
Deferred taxation (ii)	**6,468**	8,414
	338,471	265,411
Deferred tax arising from:		
Accelerated capital allowances	**(1,683)**	(2,139)
Derivative financial instruments	**(436)**	888
Post employment benefits	**5,988**	6,540
Other timing differences	**2,599**	3,125
	6,468	8,414

(i) Trade debtors are stated net of a provision for impairment of €2.3m (2016: €2.6m).

(ii) The Group has not recognised deferred tax assets of €5.0m (2016: €4.3m) on the basis that there is insufficient evidence that these assets will be recoverable. Deferred tax assets are expected to substantially reverse in greater than one year.

(iii) The Group also manages credit risk of trade debtors through the use of a number of sales of debtor arrangements. Under the terms of these agreements the Group has transferred substantially all of the credit risks which are subject to these agreements. Accordingly €68.6m (2016: €66.3m) of trade debtors have been derecognised at period-end.

Notes to the Financial Statements (continued)

14. Creditors: amounts falling due within one year

	2017 €'000	2016 €'000
Trade creditors	**180,483**	146,294
Amount due to factor (note 16)	**214,470**	113,223
Derivative financial instruments	**–**	7,030
Option liability	**–**	3,612
Accruals	**166,333**	163,619
Redeemable loan stock	**2,426**	2,822
Taxation creditors (note 15)	**11,940**	9,568
Deferred consideration on acquisitions	**–**	667
Other creditors	**2,041**	2,041
	577,693	448,876

15. Taxation creditors

	2017 €'000	2016 €'000
Corporation tax	**7,930**	7,175
PAYE	**1,568**	1,113
PRSI	**396**	593
VAT	**2,046**	687
	11,940	9,568

Notes to the Financial Statements (continued)

16. Loans

	2017 €'000	2016 €'000
Amounts falling due after one year (loans)	**58,972**	–

In November 2017, the Group entered into a five year syndicated financing agreement. Current facilities available under this agreement are €260m.

All material subsidiaries of the Group entered into cross guarantees for the debts under this agreement and also are subject to a negative pledge that security will not be granted to any party during the course of the agreement.

The Group is subject to certain financial covenants and other restrictions during the period of this agreement.

Separately, in November 2017, a number of member suppliers to the Group entered into a five year agreement (reverse invoice discounting or RID facility) with a panel of International Banks led by Rabobank International to sell amounts owed to them by the Group, with committed facilities of €350m.

Under this agreement, the Group acknowledges invoices on behalf of the member suppliers to enable them to receive early payment of those invoices. Upon acknowledgement of member invoices which have been sold to Rabobank, the Group's obligations to the member is extinguished and the Group thereafter assumes an obligation to pay the amount of member invoices sold (2017: €214.5m, 2016: €113.2m) to Rabobank.

17. Creditors: amounts falling due after one year

	2017 €'000	2016 €'000
Redeemable loan stock	**3,812**	4,258
Deferred taxation (i)	**3,438**	1,148
Option liability*	**1,832**	2,028
Bank loans (note 16)	**58,972**	–
	68,054	7,434

*The option liability relates to an option to acquire the non-controlling interest in a Group subsidiary.

(i) Deferred tax arising from:

	2017 €'000	2016 €'000
Accelerated capital allowances	**3,288**	2,123
Derivative financial instruments	**249**	-
Other timing differences	**(99)**	(975)
	3,438	1,148

Deferred tax liabilities are expected to substantially reverse in greater than one year.

Notes to the Financial Statements (continued)

18. Financial instruments

	2017 €'000	2016 €'000
The Group has the following financial instruments		
Financial assets at fair value through profit or loss		
Derivative financial instruments (ii)	**10,558**	1,167
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	**289,540**	237,397
Taxation debtors	**839**	1,067
Other debtors	**22,099**	7,463
Preferred shares in associate (i)	**11,665**	12,278
Loans to joint venture	**474**	–
	324,617	258,205
Financial assets that are equity instruments measured at cost less impairment		
Other investments	**295**	48
Financial liabilities measured at fair value through profit or loss		
Derivative financial instruments (ii)	**–**	7,030
Call option liabilities (iii)	**1,832**	5,640
	1,832	12,670
Financial liabilities measured at amortised cost		
Trade creditors	**180,483**	146,294
Amount due to factor (note 16)	**214,470**	113,223
Accruals	**166,333**	163,619
Redeemable loan stock	**6,238**	7,080
Taxation creditors (note 15)	**11,940**	9,568
Deferred consideration on acquisitions	**–**	667
Other creditors	**2,041**	2,041
Loans (note 16)	**58,972**	–
	640,477	442,492

Notes to the Financial Statements (continued)

18. Financial instruments (continued)

(i) Financial assets - preferred shares in associate acquired as part of the disposal of DPI.

(ii) Derivative financial instruments

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency debtors. At 30 December 2017 the contracts outstanding have an average maturity of 5 months (2016: 6 months). The foreign currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for EUR:USD and EUR:GBP at the end of the financial period. The fair value of the Group's financial instruments is listed in the above tables. During 2017, a hedging gain (net of taxation) of €3.7m (2016: loss of €4.4m) was recognised in Other Comprehensive Income. The Group's derivative financial instruments mainly relate to its commitments to sell USD and GBP and receive a fixed euro amount, as well as relating to commodity contracts.

In 2017 a charge of €Nil (2016: €0.4m) was recognised in the Income Statement in relation to cash flow hedges which represented the excess of the fair value of the hedging instruments over the change in the fair value of the expected cash flows.

(iii) Call option liabilities

The fair value of the call option liabilities is based on the discounted value of the expected amounts to be paid on the exercise of the options at their expected exercise date (note 17).

19. Provision for liabilities

	Onerous Contracts (i) € '000	Disposal Related Provisions (ii) € '000	Other Provisions (iii) € '000	Total Provisions € '000
At beginning of period	16,232	3,352	2,306	21,890
Provided during the period	9,150	–	67	9,217
Utilised during the period	(16,232)	(597)	(81)	(16,910)
Translation adjustment	–	(376)	–	(376)
At end of period	**9,150**	**2,379**	**2,292**	**13,821**

(i) The onerous contracts provision relates mainly to contracted sales whose revenues do not cover the cost of completing the contract.
(ii) Relates to provisions made in 2015 on disposal of the DPI business for certain costs that will be incurred by the Group subsequent to the disposal.
(iii) Other provisions includes the Group's insurance provision and the Group's Long Term Incentive Plan provision.

The majority of the above provisions will be utilised within one year.

Notes to the Financial Statements (continued)

20. Share capital and reserves

	2017 No. of Shares	2017 €'000	2016 No. of Shares	2016 €'000
Issued share capital				
"A" shares of €1 each	**13,335**	**13**	13,335	13
"B" shares of €1 each	**3,429**	**4**	3,429	4
"C" shares of €1 each	**267**	**–**	267	–
"D" shares of €1 each	**130**	**–**	130	–
Bonus shares of €1 each	**1,672,843**	**1,673**	1,672,843	1,673
Deferred ordinary shares of €1 each	**17,916,961**	**17,917**	17,916,961	17,917
		19,607		19,607

	2017 No. of shares '000	2016 No. of shares '000
The number of issued and fully paid ordinary shares was as follows:		
At beginning of period	**19,607**	19,569
Issue/redemption of shares	**–**	38
At end of period	**19,607**	19,607

The shareholding of the Parent Society is subdivided into a number of classes of shares.

The main classes of shares are A, B, C and D shares as well as bonus and deferred shares of €1 each.

The holders of "A" and "B" shares may, subject to board approval, be issued with bonus shares and convertible loan stock based on sales of product to the Parent's group. They are also entitled to attend and vote at General Meetings of the Society.

Bonus shares rank pari passu with "A" and "B" shares.

The holders of "C" and "D" shares are not entitled to vote at General Meetings of the Society.

The holders of deferred shares do not have the right to attend or vote at the General Meetings of the Society.

A description of each of the classifications of reserves within equity are below:

- Revenue reserves have been created out of profit and represent the amount of profit not paid to shareholders in the form of dividends.
- Share premium is a capital reserve that is created when shares are issued at a premium (more than their nominal value).
- Cash flow hedging reserve represents the fair value of cash flow hedges net of taxation which have been deferred in equity.
- Capital levy account represents the excess of capital levy receipts for which deferred shares have not been issued.
- Annual bonus fund (note 7).
- Redeemable loan stock (note 7).

Notes to the Financial Statements (continued)

21. Net cash inflow from operations

	2017 €'000	2016 €'000
Operating surplus before exceptional items	**35,245**	26,611
Depreciation	**11,957**	10,540
Amortisation	**6,628**	5,931
(Increase)/decrease in inventories	**(107,942)**	91,245
(Increase)/decrease in debtors	**(62,149)**	6,995
Increase in creditors	**134,479**	19,381
Post retirement liabilities	**(2,435)**	(2,808)
Cash generated from operations (before cash exceptional items)	**15,783**	157,895
Exceptional expenditure (excludes bonus paid to members from sale of DPI)	**(3,663)**	(1,777)
Exceptional expenditure - bonuses paid to members from sale of DPI	**(5,000)**	(15,000)
Cash generated from operations (after cash exceptional items)	**7,120**	141,118

22. Cash and cash equivalents and net debt

	2017 €'000	2016 €'000
Cash and Cash equivalents consist of:		
Cash and bank balances	**59,282**	57,155
Loans (note 16)	**(58,972)**	–
Net cash	**310**	57,155

23. Restricted cash

	2017 €'000	2016 €'000
Restricted cash on deposit	**3,968**	3,742

Deposits of €4.0m (2016: €3.7m) were held at period end within the Group's insurance company and are restricted for use by the Group other than for the purposes of insurance.

Notes to the Financial Statements (continued)

24. Capital commitments

	2017 €'000	2016 €'000
Commitments for which contracts have been placed	**9,042**	5,239
Commitments approved but not contracted for	**19,320**	26,128

25. Post employment benefits

The Parent Society and certain subsidiaries operate and contribute to defined benefit and defined contribution schemes in addition to a number of internally funded arrangements.

The total Income Statement charge in respect of defined benefit schemes for the Group was a charge of €3.2m (2016: charge of €3.5m) of which €2.3m (2016: €2.5m) has been charged against operating profit before exceptional items and €0.9m has been charged within other finance costs (2016: €1.0m).

Contributions to defined contribution pension schemes in the period were €1.8m (2016: €1.5m).

The trustees of the Parent Society scheme have obtained an actuarial valuation dated 1 January 2017 using the projected unit valuation method. The trustees of the Ornua Foods UK Limited scheme have obtained an actuarial valuation dated 31 December 2015 using the projected unit valuation method. Valuations as at 30 December 2017 have been obtained for the internally funded schemes. These valuations, and the most recent actuarial valuations of the other post retirement schemes, have been updated by independent qualified actuaries to take account of the requirements of FRS 102, in order to assess the liabilities of the schemes as at 30 December 2017.

It has been agreed that an employer contribution rate of 20.6% of pensionable pay plus an additional €1.0m will apply in future years for the Irish scheme and the expected contributions for 2018 are €1.9m. For the other schemes it has been agreed that an employer contribution rate of 17.5% of pensionable salary plus an additional €0.3m will apply in future years and that the expected contributions for 2017 are €0.6m.

Financial assumptions
The major assumptions used by the actuaries to calculate scheme liabilities are:

	2017 Irish Scheme %	2016 Irish Scheme %	2017 Other Schemes %	2016 Other Schemes %
Inflation rate	**1.65**	1.50	**2.20**	2.40
Salary rate increases	**2.65**	2.50	**3.40**	3.60
Pension payment increases	**1.65**	1.50	**2.20**	2.40
Discount rate	**2.10**	1.90	**2.40**	2.60

Notes to the Financial Statements (continued)

25. Post employment benefits (continued)

In valuing the liabilities of the pension fund at 30 December 2017, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

	Irish Scheme 2017/2016		Other Schemes 2017		Other Schemes 2016	
Current pensioner aged 65	24 years male	26 years female	22 years male	24 years female	23 years male	25 years female
Future retiree* upon reaching 65	27 years male	29 years female	24 years male	26 years female	25 years male	27 years female

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

*Current age 40 years for the Irish scheme and current age 45 years for the other schemes.

	2017 Irish Scheme €'000	2016 Irish Scheme €'000	2017 Other Schemes €'000	2016 Other Schemes €'000	2017 Total €'000	2016 Total €'000
Equities	**38,605**	56,916	**28,170**	32,239	**66,775**	89,155
Bonds	**22,241**	17,504	**14,721**	11,672	**36,962**	29,176
Property	**2,070**	2,004	**422**	344	**2,492**	2,348
Other	**30,018**	11,500	**957**	815	**30,975**	12,315
	92,934	87,924	**44,270**	45,070	**137,204**	132,994
Actuarial value of liabilities	**(120,122)**	(118,086)	**(57,942)**	(59,870)	**(178,064)**	(177,956)
Net deficit in the schemes	**(27,188)**	(30,162)	**(13,672)**	(14,800)	**(40,860)**	(44,962)

	2017 Irish Scheme €'000	2016 Irish Scheme €'000	2017 Other Schemes €'000	2016 Other Schemes €'000	2017 Total €'000	2016 Total €'000
Analysis of the amount charged to the Group Income Statement during the period:						
Current service cost	**1,681**	1,776	**637**	756	**2,318**	2,532
Net interest expense	**589**	595	**366**	402	**955**	997
	2,270	2,371	**1,003**	1,158	**3,273**	3,529

Notes to the Financial Statements (continued)

25. Post employment benefits (continued)

Movement in benefit obligations during the period	Irish Scheme 2017 €'000	Other Schemes 2017 €'000	Total 2017 €'000
Benefit obligations at beginning of period	118,086	59,870	177,956
Current service cost	1,681	637	2,318
Interest expense	2,251	1,479	3,730
Plan participant's contributions	266	108	374
Actuarial loss	906	210	1,116
Benefits paid from plan	(3,068)	(1,992)	(5,060)
Exchange adjustment	–	(2,370)	(2,370)
Benefit obligations at end of period	**120,122**	**57,942**	**178,064**
Movement in plan assets during the period			
Fair value of plan assets at beginning of period	87,924	45,070	132,994
Interest income	1,662	1,113	2,775
Remeasurement gains/(losses):			
Return on plan assets excluding interest income	4,261	1,038	5,299
Employer's contributions	1,889	791	2,680
Plan participant's contributions	266	108	374
Benefits paid from plan	(3,068)	(1,992)	(5,060)
Exchange adjustment	–	(1,858)	(1,858)
Fair value of plan assets at end of period	**92,934**	**44,270**	**137,204**
Deficit in schemes	**(27,188)**	**(13,672)**	**(40,860)**
Actual return on plan assets	**5,923**	**2,151**	**8,074**

26. Financial commitments

a) Operating leases

At 30 December 2017, the Group had future minimum payments under non-cancellable operating leases as follows:

	2017 €'000	2016 €'000
Payments due:		
Not later than 1 year	**2,437**	2,492
Later than 1 year and not later than 5 years	**4,329**	5,907
Later than 5 years	**7,528**	8,042
	14,294	16,441

Notes to the Financial Statements (continued)

26. Financial commitments (continued)

b) Bank guarantees

The Group had outstanding guarantees at the period end as follows:

	2017 €'000	2016 €'000
Bank guarantees	**8,960**	5,429

These guarantees are used to support the activities of Group companies.

c) Other financial commitments

The Group had the following outstanding forward currency/commodity contracts at the period end in respect of foreign exchange/price risk.

	2017 €'000	2016 €'000
Forward foreign currency/commodity contracts	**395,197**	383,514

27. Related party transactions

The principal related party relationships requiring disclosure in the consolidated financial statements of the Group pertain to transactions with members of the Parent Society entered into by subsidiaries of the Group.

Sales to members during the financial period ended 30 December 2017 amounted to €20.8m (2016: €15.3m) and purchases from members amounted to €1,134.9m (2016: €812.6m). Amounts receivable from and payable to members arising from the aforementioned sales and purchases transactions as at the balance sheet date are €14.5m (2016: €12.5m) and €90.8m (2016: €62.1m) respectively. There are other payable balances of €2.0m to members (2016: €2.0m).

In general, the transfer pricing policy implemented by the Group across its subsidiaries is market-based. The outstanding balances included in receivables and payables as at the balance sheet date in respect of transactions with members are unsecured and settlement arises in cash. No guarantees have been either requested or provided in relation to related party receivables and payables.

There were no transactions with Directors or key management during the period apart from the payment of remuneration as set out in the table below.

There were no Director loans in existence during the period or outstanding at period end.

Notes to the Financial Statements (continued)

27. Related party transactions (continued)

Key management personnel
Key management personnel comprises the Board of Directors and the executive committee who manage the business and affairs of the Company.

The remuneration of key management personnel was as follows:

	2017 €'000	2016 €'000
Total Directors fees (15 in 2017 & 15 in 2016)	**561**	557
Global Executive Remuneration (9 Executives in 2017 & 2016):		
Basic salary	**2,374**	2,404
Performance related bonus/LTIP	**919**	998
Other benefits	**275**	241
Employers pension contribution	**312**	325
Employers PRSI	**371**	392
Total Global Executive remuneration	**4,251**	4,360

Executive remuneration at Ornua is subject to full oversight by the Board and specifically its Personnel and Remuneration sub-committee.

The Remuneration Committee has been delegated responsibility for the implementation of the remuneration policy of the Board, determining the remuneration arrangements for the Members of the Board, Chief Executive and Senior Executives.

The process includes Review and Assessment against comparable organisations, ensuring that remuneration arrangements are consistent with Shareholder interest and the Vision, Mission and Values of the Society. The resources of Independent Professional Advisers were used in the Review and Assessment process.

28. Long term incentive plan

The Group operates a Long Term Incentive Plan (LTIP) the purpose of which is to align the interests of participants and members in achieving exceptional growth, in line with the strategic plan, in a sustainable manner over the longer term, while taking into account product prices paid to members. The LTIP pays out where significant incremental value has been generated for both the owners of the business and the supplying members.

The LTIP provides for awards to be granted to a limited number of executives and senior management as nominated by the Chief Executive and approved by the Personnel and Remuneration Committee. The LTIP is measured both in terms of profitability and product prices returned to members over the vesting period. The value of awards granted, is primarily derived from an adjusted Group EBIT calculation adjusted to reflect product prices returned to members, member bonuses and some other financial metrics.

The total amount expected to be paid out under the scheme is expensed over the vesting period, which is three years, and vested awards are settled by way of cash payment to employees over the following 3 years. The Group has not established a separate fund out of which obligations will be settled directly. The Group has a charge of €Nil (2016: credit of €27,000) within employment costs in relation to the scheme, and the obligations recognised within liabilities at period end amounts to €1.1m (2016: €1.1m).

Notes to the Financial Statements (continued)

29. Significant subsidiary companies and associates

The parent society is a Co-operative and is incorporated in Ireland and its registered address is Grattan House, Mount Street Lower, Dublin 2.

	Incorporated in and operating from	*% Holding*	*Activities*
Ornua Limited*	Ireland	100	Marketing food products
IDB Investment Limited*	Ireland	100	Group financing
Ornua Insurance Designated Activity Company	Ireland	100	Group captive insurance
IDB Treasury Limited	Ireland	100	Group factoring and financing
Kerrygold Irish Cream Liqueur Limited	Ireland	100	Manufacturing and distributing drink products
Kerrygold Butter Packing Ireland Limited	Ireland	93	Packaging of dairy products
Salsola Limited*	Ireland	100	Group financing
Kerrygold Limited*	Ireland	100	Holding Company
Al Wazeen Trading Company LLC	Saudi Arabia	75	Manufacturing, marketing and distributing dairy products
Ornua Ingredientes Espana SL	Spain	100	Manufacturing, marketing and distributing dairy products
IDB Global BV	The Netherlands	100	Group financing
Ornua Foods UK Limited	United Kingdom	100	Manufacturing, marketing and distributing dairy products
Ornua Nutrition Ingredients Limited	United Kingdom	100	Manufacturing, marketing and distributing dairy products
Ornua Butter Trading (UK) Limited	United Kingdom	100	Marketing and distributing dairy products
Ornua Ingredients UK Limited	United Kingdom	100	Manufacturing, marketing and distributing dairy products
The Irish Dairy Board UK Limited	United Kingdom	100	Holding Company
F.J. Need (Foods) Limited	United Kingdom	100	Manufacturing, marketing and distributing dairy products
Ornua Deutschland GmbH*	Germany	100	Manufacturing, marketing and distributing dairy products
Irish Dairy Board (Shenzhen) Co., Limited	China	100	Marketing and distributing dairy food products
Shanghai En Bo Lu Food Co., Limited	China	100	Manufacturing, marketing and distributing dairy products
Ornua Foods North America Inc.	U.S.A.	100	Marketing food products
Ornua (Wisconsin) Ingredients LLC	U.S.A.	100	Manufacturing, marketing and distributing dairy products
Ornua (Minnesota) Ingredients LLC	U.S.A.	100	Manufacturing, marketing and distributing dairy products
CoreFX Ingredients LLC	U.S.A.	90	Manufacturing, marketing and distributing dairy products
Nextwave Distribution Holdings Inc	U.S.A.	20	Marketing and distributing food products
IDB Holdings Inc	U.S.A.	100	Holding Company

Notes to the Financial Statements (continued)

29. Significant subsidiary companies and associates (continued)

In accordance with section 357 of the Companies Acts 2014, Ornua Co-operative Limited of Grattan House, Mount Street Lower, Dublin 2 as the holding undertaking of the Irish subsidiary companies (defined below) incorporated in Ireland and for the purposes of the exemptions referred to in section 357 of the Companies Acts 2014, and not otherwise, hereby irrevocably guarantees in respect of the whole of the financial period of the Irish Subsidiaries ending on the 30 December 2017, all of the liabilities of the Irish subsidiaries; provided that this guarantee shall not extend to any liability or commitment of the Irish Subsidiaries which shall not have arisen otherwise than in respect of that financial year or which shall not constitute a liability or loss. The 'Irish subsidiaries' covered by this guarantee are: Kerrygold Limited, Kerrygold Irish Cream Liqueur Limited, Kerrygold Butter Packing Ireland Limited, Ornua Limited, Salsola Limited, An Bord Bainne (Management) Limited, IDB Treasury Limited, IDB Investment Limited, The Irish Dairy Board Limited, IDB Premier Limited, An Bord Bainne (Services) Limited and An Bord Bainne (Exports) Limited.

* These subsidiary companies are directly owned by the Parent Society.

30. Post balance sheet events

There have been no significant events since the period end which require disclosure in the financial statements.

31. Approval of financial statements

The financial statements were approved by the Board of Directors on 14 March 2018.

Board of Directors & Executive

Board of Directors*

Aaron Forde
Chairman

Jim Russell
Vice-Chairman

Jim Bergin
John Comer
Denis Cregan
John Daly
Michael Hanley

Martin Keane
James Lynch
Dan MacSweeney
Dermot O'Leary
Sean O'Leary

Conor Ryan
Pat Sheahan
Jim Woulfe

Executive*

Kevin Lane
Chief Executive

Donal Buggy
Group Finance Director

Joe Collins
Managing Director Ornua Trading & Ingredients

Bernard Condon
CEO Ingredients Europe

Majella Darcy
Group Human Resources Director

Róisín Hennerty
CEO Ornua Foods Americas & Global Marketing Director

John Jordan
CEO Ornua Foods EMEA

Gisbert Kügler
Managing Director Ornua Deutschland GmBH

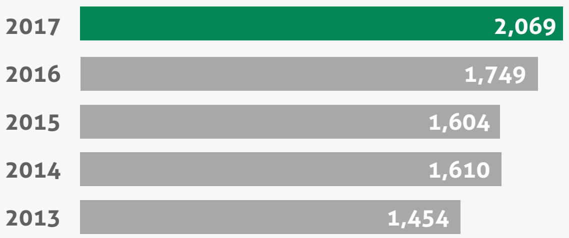
Anthony Proctor
Chief Operating Officer

Anne Randles
Secretary & Director of Administration

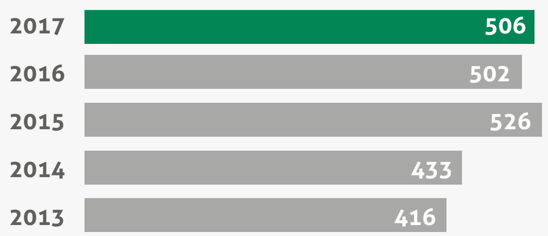
* As of 30 December 2017

Group Five Year Review

2017 Group Turnover* – €2,069 million



2017 Members' Funds – €506 million



*Excluding DPI Specialty Foods, Inc. which was sold at the end of 2015.

	2013 € '000	2014 € '000	2015 € '000	2016 € '000	2017 € '000
a) Historical values					
Turnover	2,124,088	2,339,784	2,543,413	1,749,367	2,069,219
EBITDA	45,860	49,688	58,814	43,082	53,830
Operating profit	25,836	28,067	34,104	26,611	35,245
Profit before taxation and exceptional items	22,373	23,995	28,265	22,556	31,170
Net debt/(cash)	(51,905)	99,328	17,274	(57,155)	(310)
Members' funds	416,006	433,272	525,821	502,439	505,814
b) Financial ratios					
EBITDA as % of turnover	2.2%	2.1%	2.3%	2.5%	2.6%
Operating profit as % of turnover	1.2%	1.2%	1.3%	1.5%	1.7%
Leverage (Net debt/(cash)/EBITDA) (times)	(1.1x)	2.0x	0.3x	(1.3x)	(0.01x)
Interest Cover (EBITDA/Interest Payable) (times)	15.0x	15.9x	12.6x	11.6x	17.6x

Figures are reported under previously applied Irish GAAP for the year 2013, and under FRS102 for the years 2014-2017

Irish Product Utilisation Overview

Total Irish Milk Supply (million litres)

	2017	2016
January	149	148
February	273	287
March	621	595
April	866	761
May	1,000	930
June	918	853
July	875	782
August	786	699
September	654	584
October	534	500
November	381	337
December	203	178
Total	**7,260**	**6,654**

Source: CSO

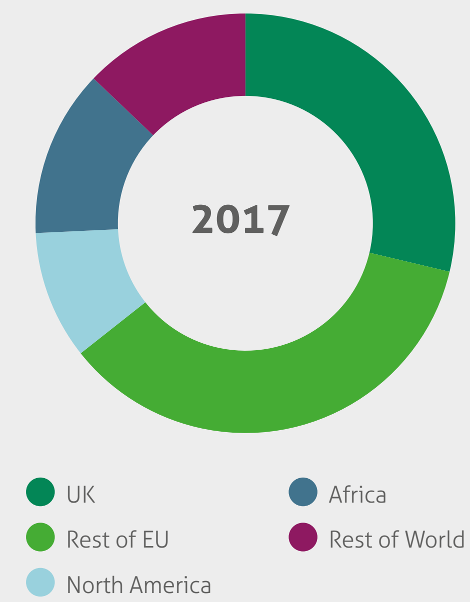
Total Irish Product Output (Tonnes)

	2017	2016
Butter	223,700	198,700
Cheese	218,000*	205,000
SMP	119,800	117,700

Source: CSO/Ornua
*estimate

Ornua Sales from Ireland by Destination (%)

Destination	2017 %	2016 %
UK	29%	28%
Rest of EU	36%	38%
North America	10%	8%
Africa	12%	13%
Rest of World	13%	13%
Total	**100%**	**100%**



Our Global Community

Dr. Mark Fenelon
Research Partner

"On behalf of Teagasc, I am delighted to endorse the role of Ornua in supporting innovation within the dairy industry in Ireland. Ornua's in-depth technical understanding of dairy products and interaction within the supply chain has facilitated Teagasc researchers in many ways, including the delivery of research with real commercial impact."

Teagasc, Moorepark, Ireland

THE HOME OF IRISH DAIRY

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