Ornua
THE HOME OF IRISH DAIRY

Annual Report 2016

Bringing the unique taste of grass-fed Irish dairy to the world

Our Business

Ornua – The Home of Irish Dairy, is an agri-food commercial co-operative which markets and sells dairy products on behalf of its members; Ireland's dairy processors and, in turn, the Irish dairy farmer.

Headquartered in Dublin, Ornua is Ireland's largest exporter of Irish dairy products, exporting to c.110 countries worldwide and has sales of c.€1.75 billion annually. It operates from 18 business units worldwide and has sales and marketing teams working in-market across all four corners of the globe; from Algiers to Beijing to Lagos and LA.

Ornua's business is comprised of two divisions: Ornua Foods and Ornua Ingredients. Ornua Foods is responsible for the international marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Shannongold, Forto and BEO milk powder brands. Markets are served by plants and in-market sales and marketing teams in Ireland, the UK, Germany, the rest of Europe, the US, Africa, the Middle East and Asia.

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 plants in Saudi Arabia, Spain, the UK, the US and by in-market teams in the Middle East and Africa region.

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Ireland's largest exporter of Irish dairy products

Exporting to c.110 markets around the world

A c.2,000 strong global team

Proud owner of Kerrygold

Kerrygold Park

Read more on pg. 31

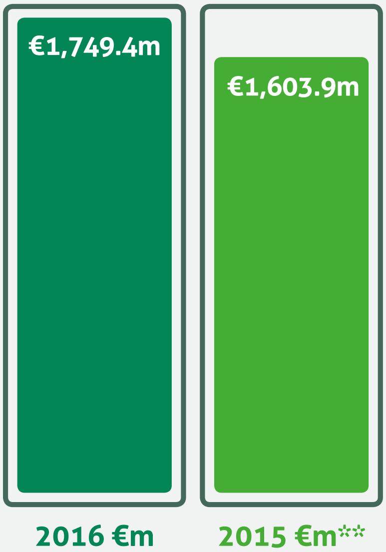
2016 was a historic year for Ornua with the opening of our first processing site in Ireland. Sustainability was front of mind during the design and construction of Kerrygold Park.

PERFORMANCE HIGHLIGHTS

Financial Highlights

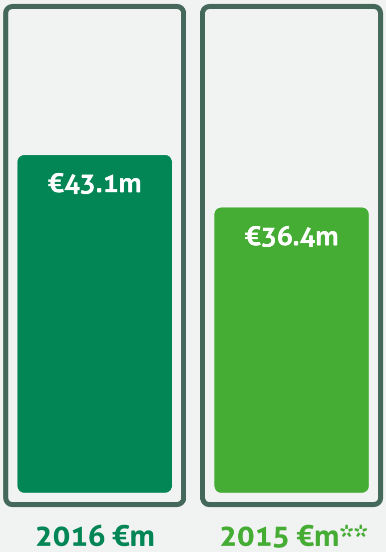
Turnover

Year-on-Year change
9.1% ↑



Group EBITDA*

Year-on-Year change
18.4% ↑



* Before exceptional items
** Excluding DPI which was disposed in 2015.

Members Bonus

Net Assets

Operational Highlights

Delivery of a new Group 5-Year Plan; Ornua 2021

Record product purchases from members; Ireland's dairy processors

Launch of Kerrygold Spreadable in the UK and Kerrygold Yogurts in Germany

Commissioning and opening of Kerrygold Park; a state-of-the-art butter production and packing plant in Mitchelstown, Co. Cork

Commissioning and opening of Ornua Saudi Arabia's cheese plant in Riyadh - Al Wazeen

Successful integration of Shanghai-based dairy manufacturer, Ambrosia Dairy, into Ornua Asia

Acquisition and integration of US powder ingredients business, CoreFX Ingredients

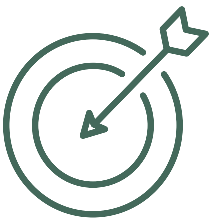
Commissioning of the EasiYo production packing plant at Ornua Nutrition Ingredients UK in Leek, UK

OUR BUSINESS

Our Vision

To be a leading global dairy organisation, rewarding our customers, consumers and stakeholders.

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 Values

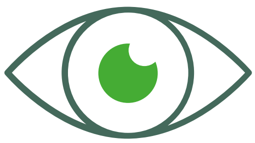
With heart

Collaboration, humility, valuing diversity

With thought

Excellence, communication, planning

With vision



Innovation, strategic thinking, flexibility

With drive

Ownership, decisiveness, outcome-focused

Ornua 2021 | Our Ambition for the Future

Build sustainable and value-added routes to market

€3bn
in revenues by 2021

3%
sustainable EBITA margin

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 the 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

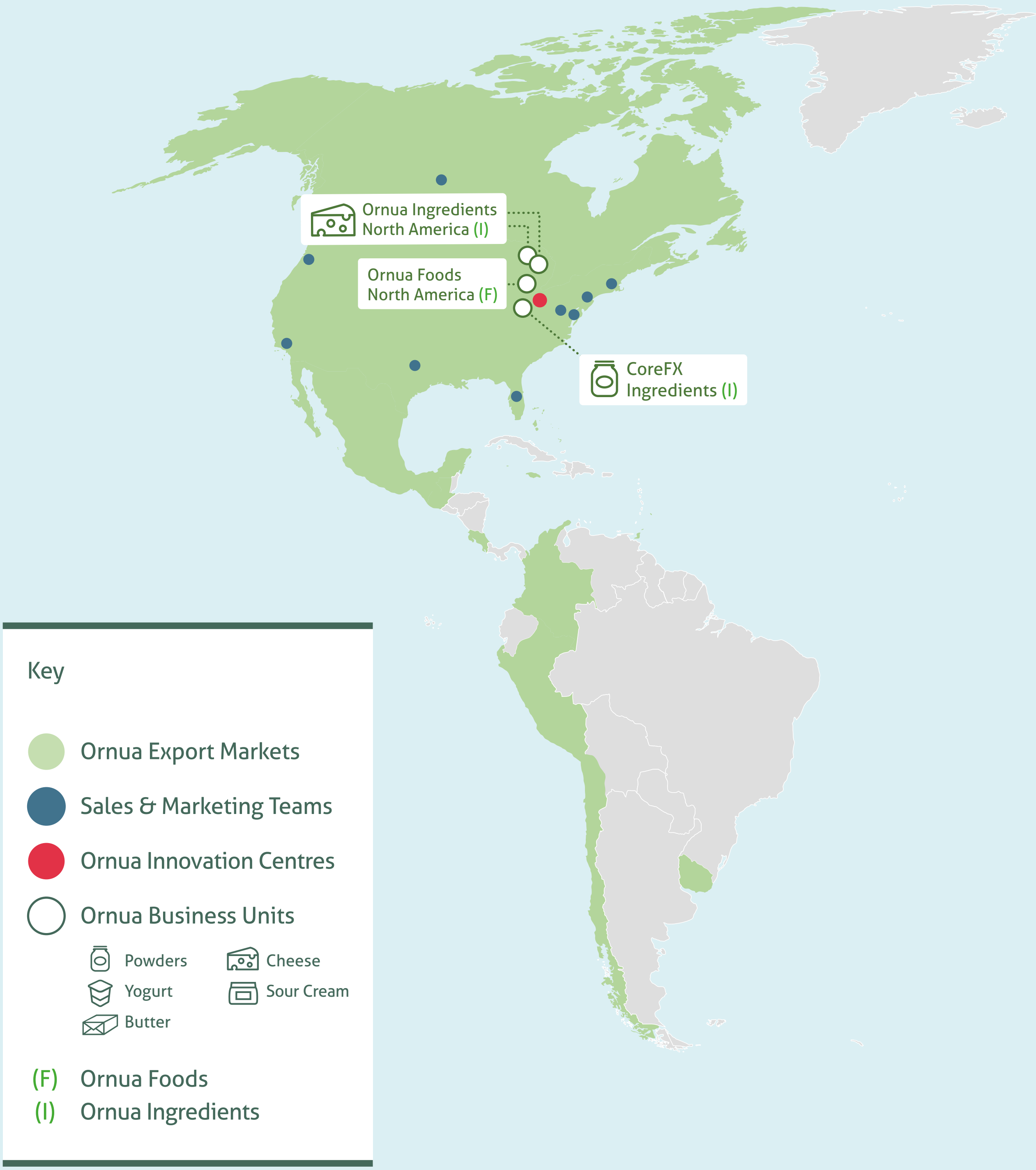
Irish Supply
By paying strong prices we will maintain our current share of Irish dairy exports.

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.

⊕ Read more about Ornua Foods on pg. 15 and Ornua Ingredients on pg. 19

The Ornua Community



Ornua Group Functions

- Communications
- Dairy Trading
- Finance
- Foods Innovation
- HR
- Ingredients Innovation
- Internal Audit
- IT
- Legal
- Operational Engineering
- Operational Excellence
- Procurement
- Risk Management
- Supply Chain
- Technical

CHAIRMAN'S STATEMENT

With our vision of being a leading global dairy organisation, I am delighted to present our report for 2016. As predicted, milk production in Ireland rose 4% in the first full calendar year post the abolition of EU milk quotas. The year was challenging both in terms of trading and milk price returns, although we did see a welcome re-balancing of the market in the second half.

2016 was perhaps more defined by external political and policy developments. Brexit, a more protectionist agenda within the new US Trump Administration and the growth of national labelling rules, which inhibit the free functioning of the European Single Market, were seismic. These unexpected developments over the past 12 months will have long term implications for dairy trading, for Ornua and for its members.

The Members' Cash Bonus for 2016 totalled €14.5 million, €9.5 million in the form of the annual cash bonus plus a further €5 million from the gain on the disposal of DPI in 2015.

Business Performance

Once again, Ornua has reported a solid year of financial and trading results. As in previous years, this positive outturn was in addition to on-going growth and strategic investment in the business, including the acquisition of CoreFX in the US, a strong product price performance, as evidenced by the PPI, and a further increase in members' purchases. The Members' Cash Bonus for 2016 totalled €14.5 million, €9.5 million in the form of the annual cash bonus plus a further €5 million from the gain on the disposal of DPI in 2015 (which is in addition to the €15 million DPI-related bonus paid out during the year). In May, the Board suspended the monthly Ornua milk levy in recognition of the on-farm challenges experienced by Irish dairy families due to the global dairy market downturn. While market returns have started to recover, volatility is constant and must be managed. New markets and premium, innovative products are key to offsetting market volatility risks. We have also enhanced our trading competency to further protect our business, our customers and our members. An important component of this is our members' fixed milk price schemes which help to insulate our farmers and our customers from the impacts of volatility.

Markets

While 2016 was a challenging trading year for dairy, there was a welcome re-balancing of the market in the latter part of the year. In-line with all agricultural commodity prices, milk prices fell to a seven-year low, SMP intervention stocks rose to a 25-year high, international trade growth slowed and milk fat and protein prices diverged significantly. A slowdown in milk output in the main exporting countries and a solid improvement in demand, most notably in China, led to an important correction in the global market and a recovery in international prices, particularly for butter.

The market still faces challenges: the global economy is weak, as is the purchasing power of oil-exporting countries, but as we move into 2017 the outlook for the year is more stable. EU milk deliveries are forecast to be flat to slightly increasing over the year and internal EU consumption is expected to grow, especially for cheese. International demand is uncertain due to higher prices and geo-political developments but the weaker Euro will support EU exports; a key requirement to maintain market stability.

In Ireland, milk output was up 4%, however low milk prices wiped out any income benefit of this increased production resulting in, according to Teagasc, a 27% reduction in net margins on a per litre of milk basis. Thankfully, milk prices started to recover towards the end of 2016 and should hold for the first half of 2017 leading to an overall improvement in net dairy margins. Milk production is forecast to grow a further 6% this year.

Geopolitical Environment

As we enter into Article 50 negotiations on the UK's withdrawal from the EU, both sides must ensure that the process of exiting does not undermine the UK consumers' ready access to quality assured, traceable and regulated dairy products which are delivered to market via a short supply chain. Equally, there is an onus of responsibility at political level to protect Ireland's investment over many decades in the Island of Ireland's value chain and to protect our unfettered access to the UK market; whether cross-border, south-north or west-east to Great Britain.

Appreciation

Once again, I would like to thank my fellow Board members for their support as Chairman and in particular I thank the Vice-Chairman, Jim Russell, for his continued support. Ted O'Connor retired from the Board at the end of the year after eight years of service and we wish him well in his retirement. He is replaced by John Daly and the board extends its best wishes to him in his endeavours to support Ornua in growing its business.

The continued success of Ornua is due to its customers, its many stakeholders and its staff. I would like to thank 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 for their work in promoting and facilitating the export of Irish dairy products. Their work in protecting the interests of Ireland, its agri-food sector and Irish dairying, is critically important as the UK negotiates to withdraw from the EU.

> In-line with all agricultural commodity prices, milk prices fell to a seven-year low, SMP intervention stocks rose to a 25-year high, international trade growth slowed and milk fat and protein prices diverged significantly.

People

Finally, I would like to thank our CEO Kevin Lane, his Executive team and all employees of the Ornua Group globally, for their efforts and dedication to Ornua. I would also like to acknowledge the efforts, dedication and support of Ireland's dairy farmers to the Society.

We are facing an unprecedented challenge with Brexit, however we must not lose sight of the great opportunity facing us to maximise Ireland's potential as a leading global producer of unique, grass-fed, high quality and sustainable dairy products. We have the team and the resources to deliver a strong, growing, global business that rewards our members as we embark on the next phase of strategic growth; Ornua 2021.

Aaron Forde
Chairman

CHIEF EXECUTIVE'S REPORT

At Ornua, our vision is to be a leading global dairy organisation, rewarding our customers, consumers and stakeholders. In 2016, our c.2,000 strong, proud and passionate team demonstrated a clear drive to deliver on this vision with their commitment to excellence, innovative thinking and successful collaboration.

On behalf of the Group, I am pleased to report another strong performance in 2016, both in terms of revenue generation and business development across our many international markets. This performance was achieved against a backdrop of significant market volatility and political uncertainty in a number of key markets.

Financial Performance

2016 saw revenue growth in the business. Excluding DPI Specialty Foods, which was sold at the end of 2015, Group Turnover rose by 9.1%, to €1.75 billion and Group EBITDA* increased by 18.4% to €43.1 million. This was achieved during a period of significant investment in the business, with new facilities built in Ireland and Saudi Arabia and significant factory upgrades in Germany and the UK. This result also includes a €6 million increase in brand and market development, bringing total investment to €51 million in 2016, and strong product prices returned to our members.

9.1%

Group Turnover rose by 9.1%, to €1.75 billion and Group EBITDA* increased by 18.4% to €43.1 million.

The Group closed the year with net cash of €57.2 million compared to net debt of €17 million in 2015 and a very strong Balance Sheet with net assets in excess of €500 million. This provides the Group with significant flexibility to fund future growth and to support the working capital requirements of our members. Product purchases rose by 7%, year-on-year, outstripping the rise in Irish milk supply of 4%. Over the last four years, Irish purchases have grown by 33%.

This growth demonstrates Ornua's strong product prices returns. Reflecting 2016's strong performance, a Members' Bonus of €14.5 million was declared, including a bonus from the gain on the disposal of DPI Specialty Foods of €5 million (in addition to the DPI-related bonus of €15 million already paid).

Brand Performance

2016 saw another strong performance across our brand portfolio in key markets. In the US, we achieved 20% volume growth. Ornua Deutschland enjoyed another record year. Our ambition is to move Kerrygold from being a world-class butter brand to an instantly recognisable global dairy brand. 2016 saw the successful launch of Kerrygold Yogurts in Germany, Kerrygold Spreadable in the UK and the continued roll-out of Kerrygold Irish Cream Liqueur across Europe and the US.

In-Market Expansion

2016 saw significant progress in terms of in-market expansion, with the opening of a new Ornua facility in Saudi Arabia, upgrade works to the existing production facility at Neukirchen-Vluyn in Germany and the development of a purpose-built production line for yogurt brand EasiYo at Ornua Nutrition Ingredients UK.

Building Scale & Capability

In addition to organic expansion, Ornua acquired US ingredients business CoreFX. This acquisition is another key milestone in Ornua's US expansion programme and is in-line with our strategy to invest in high growth and profitable dairy businesses.

*Before exceptional items

In early 2017, we signed an agreement to acquire F.J. Need (Foods) Limited, a UK-based cheese ingredients company. This acquisition will significantly strengthen our presence in the UK ingredients sector. F.J. Need's strong competencies will also strengthen our UK business capabilities in the post-Brexit environment. Completion of this acquisition is subject to UK competition approval.

Ornua is committed to investing in its sites around the world to ensure they are as efficient as possible. Implementation of lean manufacturing principles delivered incremental annual savings of €2.4 million in 2016. This brings the accumulative annualised benefit to over €12 million.

⊕ Read more on pg. 30

Sustainable Growth & Operational Excellence

The story of Irish dairy is one of sustainably-produced, quality products. As the Irish dairy industry increases in scale, we must not only preserve, but enhance, our reputation as a sustainable producer. Our Way Matters, Ornua's sustainability framework sets out positive environmental, economic and social initiatives that benefit our environment, business and community. Ornua is committed to investing in its sites around the world to ensure they are as efficient as possible. Implementation of lean manufacturing principles delivered incremental annual savings of €2.4 million in 2016. This brings the accumulative annualised benefit to over €12 million.

In September 2016, with the support of our Board, we opened Kerrygold Park, a state-of-the-art butter production and packaging plant in Mitchelstown, Co. Cork. The opening of Kerrygold Park marked a great day for Ireland's dairy industry. The plant greatly improves our innovation capability and our ability to deliver premium dairy products to consumers around the world. This is the most effective way of securing value for Irish dairy farmers.

Managing Today's New Challenges

While the overall implications are still unclear, Brexit has clearly created considerable political and economic uncertainty. Ornua is planning for every eventuality. The UK is, and will continue to be, a very important long-term market. For the past number of years, Ornua's business strategy has focused on creating a diverse global footprint by investing in brands, foodservice, technology, innovation and in-market expansion in core and emerging international markets. Market volatility is here to stay and Ornua has invested in trading expertise and technologies to best manage this.

Ornua 2021

2016 saw the completion of our Business Transformation Strategy. This strategy successfully prepared Ornua for the opportunity presented by the removal of EU milk quotas. In 2016, Ornua undertook an extensive strategic review of how we do business to enable us to develop a new Group 5-Year Plan. The result of this review is Ornua 2021, a plan which will guide our Group through its next phase of development. Ornua 2021 details our ambitious, yet achievable target; to build sustainable and value-added routes to market for Irish dairy products, generating revenues of €3 billion and a sustainable EBITA margin of 3% by 2021.

People Are Our Greatest Asset

Our capable, motivated and committed team is the true ingredient of our success. We are committed to being 'An Employer of Choice' for the best and brightest that Ireland, and the world, has to offer. In 2016, to support our team, we launched a new Global HR Strategy that encompasses four pillars: managing for performance, talent acquisition, total rewards and talent development.

Our Ambition for the Future

Ornua has enjoyed significant growth not only in 2016, but for the past number of years. Our goals are ambitious, but achievable. I believe that we have the team capable of delivering a €3 billion business by 2021 whilst ensuring optimum returns for our members. In an uncertain world, we will build the scale we need to help towards ensuring a sustainable and vibrant Irish dairy industry.

I would like to thank our Chairman, Aaron Forde, and our Board of Directors for their ongoing support. I would also like to thank my Executive team and staff for their hard work, commitment and drive to succeed. Finally, a thank you to our members and the farmers we represent. Their unrivalled commitment to delivering world-class, quality milk day in day out, has enabled us to build successful markets for Irish dairy products around the world.

Kevin Lane

Kevin Lane
Chief Executive Officer

2016 GLOBAL MARKETS

Farm gate milk prices have been extremely volatile for the last decade and 2016 was no different. 2016 will be remembered as a tale of two halves with Irish milk prices falling in the first half of the year (H1), before starting a recovery late in the second half (H2), as global commodity prices increased.

The swing in prices was created by an initial sharp increase in 2015 and early 2016 and subsequent decrease in global milk supply. EU supply increased by 3.3% year-on-year in H1, as farmers expanded herd size following the removal of EU milk quotas. US supply also increased by 1.6% with cumulative global flows in H1 up 2% compared to 2015.

While demand in H1 remained strong, supply grew at a faster rate with the slowdown in Chinese buying, the Russian embargo and low oil prices reducing the capacity of the global market to absorb additional milk supply. This was particularly pertinent in Europe where surplus milk was converted to skim-milk powder in order to take full advantage of the EU's intervention buying programme.

With milk supply outstripping demand, prices for cheese, butter and milk powder fell, weakening farm gate prices. Export prices declined by an average of 25% between October 2015 and March 2016, with Irish farm gate milk prices falling as low as 23 cpl in H1. This was reflected in the Ornua Purchase Price Index (PPI) which fell to a record low of 81.0 in June 2016.

Fast-forward to late H2, the Ornua PPI increased to 103.8 for December with farm gate prices recovering to 30 cpl on the back of improved butter and cheese commodity prices. The driver for this improvement was a sharp contraction in global milk supply as EU, Oceania and Argentinian farmers reacted to lower farm gate prices and wet Southern Hemisphere weather by reducing herd size and supplementary feed levels. While US output continued to expand, cumulative global flows in H2 were down c. 3% year-on-year.

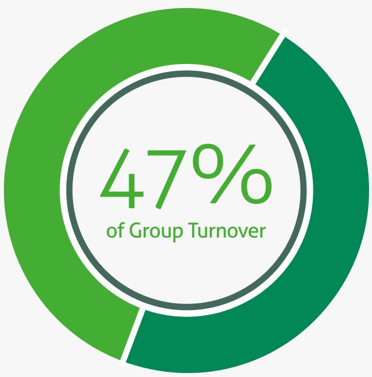
Production slowed and prices increased as a result. The price recovery was intensified by strong domestic and export demand and the swiftness of the supply contraction, with many cheese and butter traders caught short in the run up to the Christmas holiday period. A spike in Chinese buying also aided powder prices, though skim-milk powder prices remained at a low level due to muted demand and intervention stock overhang.

Looking forward to 2017, global milk supply is likely to remain constrained in H1 as EU, Oceania and Argentinian farmers take a breath after a sustained period of low milk prices. While supply constraint will support H1 pricing, global milk supply will likely recover by H2 in response to higher farm gate prices and record low feed costs. Product prices have corrected from Q4 highs as we enter Q2 2017. There are concerns about H2 buying levels and demand. Chinese buying is expected to grow at a slower rate, oil prices are forecast to remain low and continued uncertainty regarding the impact of Brexit and President Trump's election means global demand is likely to remain muted. The only certainty is that markets will continue to be volatile.

Joe Collins
Managing Director, Ornua Trading & Ingredients

Group Structure

Ornua Co-operative Limited	
DIVISION	
Ornua Foods	**Ornua Ingredients**
Ornua Africa	Ornua Butter Trading UK
Ornua Asia	Ornua Foodservice
Ornua Deutschland	Ornua Ingredientes España
Ornua Foods Europe	Ornua Ingredients North America
Ornua Foods North America	Ornua Ingredients UK
Ornua Foods UK	Ornua Nutrition Ingredients UK
Ornua Middle East	Ornua Saudi Arabia
Kerrygold Park	Ornua Trading & Ingredients Ireland
	CoreFX Ingredients



Consumer's tastes are changing and innovation remains central to Ornua's ability to grow the business.

Chef Clodagh McKenna baking with Kerrygold

ORNUA GLOBAL BUSINESS REPORTS

Ornua Foods

Ornua Foods is responsible for the international marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Shannongold, Forto and BEO milk powder brands. Markets are served by plants and in-market sales and marketing teams in Ireland, the UK, Germany, the rest of Europe, the US, Africa, the Middle East and Asia.

Ornua Foods had another year of strong growth, maintaining market-leading positions in many of its core markets. In the US, Kerrygold Butter delivered a substantial increase in sales volume, in-line with its ambitious growth plans.

Ornua Deutschland achieved a record year of growth across the business, driven by continued investment in the butter, spreadable and cheese categories and the launch of Kerrygold Yogurts. The launch of Kerrygold Yogurts is an important step in the Group's plan to move Kerrygold from being a world-class butter brand to a global dairy brand. In the UK Pilgrims Choice, the number two cheddar in the market, also achieved strong growth.

The success of Ornua's brands is based on the outstanding quality of the milk that goes into its products. Irish dairy products taste better because they come from the milk of cows that have a grass-based diet. Every day, in c.110 markets worldwide, the Ornua team shares the story of Irish dairy farming. Its marketing and advertising celebrates Ireland's grass-based family farming system. This is a message that consumers have responded to over many decades.

Consumer's tastes are changing and innovation remains central to Ornua's ability to grow the business. Identifying new product opportunities in changing markets has played an increasingly important role in the Ornua business model. In particular, the growth of the Kerrygold brand has been driven by a strong focus on the introduction of new products into both new and existing categories. Examples of these new launches include a new Kerrygold Spreadable Butter range in the UK, Kerrygold Yogurt and Kerrygold Irish Cream Liqueur in Germany and distribution gains for Kerrygold Butter Sticks in the USA.

The opening of the Green to Gold Centre in Kerrygold Park in addition to other in-market investments in Germany, the Middle East, the UK and the US have significantly enhanced Ornua's innovation capability and ability to meet the ever-evolving needs of its consumers.

Ornua Foods North America

2016 marked another significant year for Ornua in the US market, achieving 20% growth in volumes year-on-year and maintaining top market positions. The Kerrygold brand continues to perform well in the butter and speciality cheese categories. Reflective of the high number, and diversity, of retailers within the region, sales have become evenly distributed between national and regional accounts with sales growing at 17% and 28% respectively.

Continued investment in marketing across all media channels including a new national TV ad, resulted in a 45% aided awareness level amongst mainstream US consumers.

Product sales continue to be led by Kerrygold Butter which maintained the top position as the number one imported butter and the number three butter brand in the US. Kerrygold cheese retains its position as the number one speciality cheddar brand and continues to hold five of the top six positions in the speciality cheddar category.

OUR GLOBAL BUSINESS REPORTS (continued)

Ornua Foods North America (continued)

Strength in the speciality cheese aisle positions the brand well for future product innovation expansion into the main dairy cheese aisle, where the majority of US consumers purchase cheese for their everyday needs. While future innovation looks to cheese expansion, this past year, Kerrygold Butter Sticks led product innovation growth.

Ornua Foods UK

In what remained a very competitive retail environment, business performance improved significantly in 2016. Following two years of over-supply in the UK cheese market, a reduction in milk supply in 2016 led to greater market equilibrium and helped to reduce discounting and strengthen margins. Growth was experienced in all core own-label retail customers and in both Pilgrims Choice and Kerrygold brands. Continued investment in marketing across all media channels, including a new national TV ad for both brands, resulted in higher brand loyalty.

Pilgrims Choice strengthened its position as the number two cheddar brand, gaining market share and increasing sales volume by 3%.

Kerrygold is the fastest growing brand in the UK butter category increasing in both market share and sales volume in 2016. Kerrygold Spreadable was relaunched during the year in a new 500g pack format and with an improved recipe. Kerrygold experienced the highest increase in household sales among all brands with an extra 624,000 household purchases compared to 2015.

Continued investment in plant operations with new equipment and a manufacturing transformation programme in place, resulted in an improvement in all key measures of operational efficiency and raw material utilisation during the year.

Ornua Deutschland

2016 was another record year for Ornua Deutschland. Ornua products remain the market leaders in the butter, spreadable and cheese categories. Kerrygold Butter volumes grew by almost 3%, further extending its market-leading position. Kerrygold Extra continued its performance as market leader in the spreadable category, with a 20% leadership position. Another major highlight was a 42% growth in cheese volumes, where Ornua Deutschland remains the market leader.

2016 was another record year for Ornua Deutschland. Ornua products remain the market leaders in the butter, spreadable and cheese categories. Kerrygold Butter volumes grew by almost 3%, further extending its market-leading position.

In May 2016 Kerrygold Yogurts were successfully launched into the market selling over 10 million pots in the first six months with additional new flavours planned for 2017.

The 2017 outlook for Ornua Deutschland is optimistic with further dynamic growth expected and a site extension to Ornua Deutschland's head office in Neukirchen-Vluyn to be completed.

Ornua Africa

Ornua Africa endured a very testing year driven mainly by macro-economic conditions. Low oil prices and significant currency weakness leading, in some cases, to currency devaluation and reduction in value of sales.

Despite the challenges, there were some positive highlights throughout the year including volume growths recorded in Algeria, Malawi and with a record high in South Africa. In Nigeria, a new packing plant was commissioned and a detailed compliance process, enabling export to West and Central Africa markets, was successfully completed.

Ornua maintained brand leadership in key markets and expanded brand presence into a number of new countries. Although the macro-environment will continue to be challenging in 2017, Ornua Africa will look to grow seed markets for long-term success.

Ornua Asia (Formerly Ornua China)

In 2016, Ornua Asia achieved 46% growth in cheese and butter volumes. In China, Kerrygold brand awareness continued to grow, supported by increased Ornua presence both online and in-store. Kerrygold Butter continues to build a positive perception among home-baking users in tier-1 cities.

In late 2015, Ornua Asia acquired Ambrosia Dairy, a Shanghai-based dairy manufacturer. In 2016, Ambrosia Dairy's integration with Ornua Asia was completed, including the introduction and implementation of Ornua global production standards. Since the acquisition, Ambrosia's sales have increased, with a particular uplift in sales outside of the Shanghai region. Ornua Asia will be targeting national sales growth for Ambrosia Dairy products across China over the next two years.

Ornua Asia further expanded its footprint in other Asian markets as well, growing its business in Southeast Asia.

Ornua Foods Europe

In Greece, Kerrygold Regato strengthened its position as category leader by growing its market share in 2016. This strong performance, supported by TV advertising and promotional activity, was a positive result against the backdrop of ongoing macro-economic challenges.

The Iberia and Mediterranean Island's region enjoyed another solid performance in 2016. Highlights include Kerrygold in Spain, which recorded a milestone year in sales volumes, securing a national listing with Spain's number two retailer.

In Benelux, sustained brand building initiatives throughout the year coupled with promotional activity and product sampling drove performance.

Ornua Middle East

Kerrygold has maintained a strong presence across the Gulf region and has a loyal consumer base despite the challenging macro-economic environment.

Kerrygold Park

The construction of Kerrygold Park was completed in the spring of 2016 and is now producing a range of products for customers in Africa, Europe, Ireland, the Middle East, the UK and the US. Ornua would like to acknowledge its co-op members who worked closely with Kerrygold Park throughout 2016 to supply cream, services and ancillary processing.

A number of new innovative products were launched from Kerrygold Park in 2016. Most notably, the launch of Kerrygold Spreadable for the UK market. This successful launch highlights the product innovation capability that Kerrygold Park offers, alongside its integrated approach to Market Research, Customer Relationship Management, Consumer Insights, R&D, Packaging & Innovation and Supply Chain efficiency. A strong pipeline of new product launches has been developed for 2017, leveraging the unique capabilities of Kerrygold Park.

By the end of 2016, all equipment was commissioned and the site achieved BRC Grade AA, which recognised Ornua's ongoing commitment to delivering the highest technical and quality standards possible.

Headquartered in Ireland, Ornua Ingredients is supported by plants in Saudi Arabia, Spain, the UK, the US and by in-market teams in the Middle East and Africa region.

ORNUA 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. The business is also responsible for management of volatility through de-risking and trading strategies.

Headquartered in Ireland, Ornua Ingredients is supported by plants in Saudi Arabia, Spain, the UK, the US and by in-market teams in the Middle East and Africa region. Ornua Ingredients' extensive product range, excellent customer service, product development expertise and technical support ensures it delivers solutions to support its customers' success.

The division handled record volumes in 2016 and provides an increasingly important route to market for Irish dairy products. As Ireland expands its dairy output in the post-quota environment, increasing sales of dairy products to food ingredients and the growing foodservice sectors are key to achieving growth objectives.

2016 saw an overall solid outcome, but there were some mixed performances within the division. Strong growth in Ireland, Spain and the US was offset by a challenging year in the UK and new plant commission delays in Saudi Arabia. The midyear acquisition of CoreFX, a US speciality powder business, has performed to plan.

During the year the innovation function of Ornua Ingredients was restructured to focus on consumer/customer insights and facilitate a cross business unit transfer of knowledge through formal communication platforms and systems. Dairy market volatility during 2016 saw prices swing by over 70% across a six-month period. During the year, Ornua Ingredients further invested in management infrastructure to mitigate volatility through hedging, trading and de-risking strategies.

Ornua Trading & Ingredients Ireland

Ornua Trading and Ingredients Ireland (OTII) 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, foodservice providers and brand owners.

In a challenging and extremely volatile environment, 2016 was a good year for OTII. Additional value was returned to members in the form of strong product prices, particularly in the very weak first half of the year. Purchases were up a further 7% year-on-year to a record high and OTII was again in a position to support a number of members' fixed milk price schemes. In 2017 OTII will manage c.300 million litres of fixed price milk providing a key element of the industry's efforts to manage the extreme volatility at farm level. In 2016, OTII invested in further resources within its trading team to strengthen volatility management capability.

OTII's investments in routes to market, particularly in MENA and Ingredients' subsidiaries, performed exceptionally well against a backdrop of weak global demand and excess supply. OTII took advantage of a firming market in the second half of the year to liquidate stock positions and manage inventories in-line with working capital targets. This led to a strong performance in the business unit against both volume and profitability targets and left OTII inventory well positioned going into 2017.

In 2016 OTII took over responsibility for the management and strategy formulation of Ornua's foodservice business. Through late 2016, OTII put resources and structures in place to execute its strategy and to drive its presence in this high growth and strategically important channel. A number of strategic relationships with global key accounts have been established and it is expected that these relationships will deliver significant value to the Group over the coming years.

OTII will remain focused on supply chain volume efficiency, value-added growth and volatility management in 2017 and will work closely with Ornua's member suppliers in identifying and mitigating any potential impact of Brexit on shared business.

OUR GLOBAL BUSINESS REPORTS (continued)

Ornua Ingredients UK

Ornua Ingredients UK (OIUK) is a centre of excellence for dairy cheese solutions supplying the food manufacturing and foodservice sectors.

In 2016 OIUK made further progress in the integration of the previously independent businesses against the backdrop of a difficult trading environment. Exceptionally weak natural cheese pricing in the first half of the year impacted on OIUK's volumes and margins. The trading environment normalised in the second half of the year and OIUK implemented a new ERP system upgrade. Post implementation, this leaves OIUK with a solid and robust platform from which the business can resume its aggressive growth plans.

Ornua Butter Trading UK

Ornua Butter Trading UK (OBTUK) is a bulk butter trading business and major supplier to the UK food manufacturing and foodservice sectors.

2016 was an extremely challenging period for the butterfat sector with significant volatility experienced throughout the year, made even more uncertain by the ramifications of the Brexit vote in June 2016. Despite this difficult trading environment, OBTUK achieved a strong performance with sales volumes increasing 36% year-on-year.

OBTUK was successful in attaining BRC Agents & Brokers Certification in H2 2016 and is one of the first trading businesses within the UK to attain this new accreditation. BRC accreditation ensures that strict and robust standards of traceability and control are in place throughout the supply chain, from manufacturer to end customer. This level of traceability is more important than ever, with many retailers viewing it as a pre-requisite for doing business. OBTUK looks to continue its growth trajectory in 2017, further developing key routes to market for Irish bulk butter.

Ornua Nutrition Ingredients UK

Ornua Nutrition Ingredients UK (ONIUK) supplies leading UK food manufacturers and nutritional brand owners with a range of products from single dairy ingredients through to blending, packing and innovative complex consumer dry powder products.

ONIUK continued its turnaround momentum in 2016 with sustained profitability and, despite volumes reducing by 11%, the business accelerated its added value blending, innovation and customer partnership strategy driving value and profitability.

> The business invested a further £1.1 million in the site including a substantial investment in a new supply partnership with EasiYo, the New Zealand owned make-your-own yogurt brand.

ONIUK is now the UK and European supply partner for EasiYo. To support this deal, a state-of-the-art blending and packing plant was built in ONIUK's Leek headquarters, representing a strong, value-added route to market for high-quality, grass-fed Irish milk products.

The partnership with EasiYo, continued investment in the business and a value-added blending strategy positions the business well to drive future growth in 2017.

Ornua Ingredientes España

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

2016 was another year of solid performance for Ornua Ingredientes España, with 9% volume growth driven by entry to new markets and a focus on achieving the division's new 5-year plan.

OUR GLOBAL BUSINESS REPORTS (continued)

The newly commissioned Al Wazeen plant commenced production in Q1 and has progressively grown sales and its core customer base.

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 double-digit volume growth in 2016 and a significant uplift in profitability, despite a less than favorable CME (Chicago Mercantile Exchange) cheese market. The shortfall created by adverse market conditions was offset by buying gains and hedging expertise.

Having streamlined its operations in 2016 and invested significant resources in product innovation, Ornua Ingredients North America's focus for 2017 is to deliver the benefit from these investments, principally through meeting customers' needs for 'cleaner' cheese labels. The business has won a number of new contracts in 2016 and is poised to build on that momentum in 2017, continuing to record strong growth in terms of volume and profitability.

Ornua Ingredients North America experienced double-digit volume growth in 2016 and a significant uplift in profitability.

Ornua Saudi Arabia

Ornua Saudi Arabia's Al Wazeen plant based in Riyadh, Kingdom Of Saudi Arabia, produces innovative white cheese solutions for the B2B ingredients sector, leveraging recombined technology developed in partnership with Teagasc.

2016 was a challenging year for the business as the local economy felt the impact of the decline in oil revenue. Despite these challenges, the newly commissioned Al Wazeen plant, which commenced production in Q1, has progressively grown sales and its core customer base. This was due to larger scale customers and industrial bakeries responding positively to the innovative and pioneering technology brought to market. Despite the turbulent market conditions, the team in Ornua Saudi Arabia continues to steadily build its presence, recognition and capability within the region.

Ornua Foodservice

Ornua's foodservice business develops products and services focused on the Group's core competencies in cheddar, pizza cheese and cheese formatting. Ornua's value-added technologies in cheese processing delivered significant results in 2016, particularly within the casual dining and regional quick service restaurant segments in both Europe and the Middle East.

In 2016, Ornua's new foodservice brand Palatina was launched, delivering quality, consistency and expertise to foodservice operators and chefs, initially in the UK and the Middle East.

In 2017, Ornua will focus on continued growth within the eating-out-of-home market, with line extensions of the Palatina range and penetration across new markets.

CoreFX Ingredients

Chicago-based CoreFX Ingredients was acquired by Ornua in 2016. CoreFX Ingredients develops and commercialises innovative dry dairy and lipid ingredients to make tailor-made customer formulations for a diverse range of US food manufacturing customers producing snack foods, sports nutrition, soups/sauces, dressings and dairy products.

Ornua's key focus, post-acquisition, has been to invest in an upgrade of infrastructure at the CoreFX plant and innovation centre.

In 2016, Ornua's new foodservice brand Palatina was launched delivering quality, consistency and expertise to foodservice operators and chefs, initially in the UK and the Middle East.

ORNUA GLOBAL BUSINESS REPORTS

Innovation at Ornua

One of Ornua's core goals is to deliver value through innovation. Consequently, investment in innovation continues to beat the heart of Ornua's growth plans.

Ornua refocused its innovation resources in 2016, establishing dedicated innovation teams for both the Foods and Ingredients divisions in order to better meet the different and evolving needs of customers in both businesses.

Innovation resources are split out among innovation centres of excellence in Ireland and globally across Ornua's international manufacturing plants. Ornua expanded its butter innovation capabilities in 2016, with the opening of the Kerrygold Park butter manufacturing plant in Mitchelstown, Co. Cork.

The business is increasingly applying a more global perspective to its innovation agenda, to support the global reach of many of its manufacturing and foodservice customers. In addition, it is focusing on building increased applications know-how and developing customer and end consumer insights to inform and focus innovation activity. In 2016, branded innovation investment was spread across innovation opportunities within existing categories, but also in new dairy categories.

Ornua Foods' Highlights

Kerrygold Dubliner Cheese wedges awarded for Best Brand Extension at the World Dairy Innovation Awards;

The launch of Kerrygold Yogurts in Germany. This was Kerrygold's first entry into the consumer yogurt category. A full range was developed which included eight fruit flavours and one natural flavour. Kerrygold Yogurts compete in the premium segment and, as a result of the success of the launch, new flavour ranges will be introduced in 2017;

The introduction of Kerrygold Spreadable and Kerrygold Spreadable Lighter into the UK market. The introduction of two Kerrygold products allows the brand to compete in the spreadable butter category, a category which is experiencing strong and continued growth;

In October 2016, Kerrygold Shortbread was launched in the Irish market. Available in a range of sizes, including a portion pack for foodservice, the shortbread is made to a traditional Irish recipe using Kerrygold butter.

In October 2016, Kerrygold Shortbread was launched in the Irish market.

Ornua Ingredients & Foodservice Highlights

Commercialisation of an enhanced range of fat filled milk powders for the Middle East and Africa markets;

Commercialisation of new feta cheese ingredient solutions for bakery applications in the Middle East and North Africa region, from the Al Wazeen plant in Saudi Arabia;

The launch of the Palatina Cheese range (Palatina Mozzarella, Palatina Mozzarella & Cheddar and Palatina Melt) using TCS Technology™ in the UK and the Middle East;

The launch of the full range of EasiYo natural and flavoured yogurt mixes for the UK and European markets using specially formulated Irish dairy powders, blended and packed in a new dedicated blending plant in Ornua Nutrition Ingredients UK;

Development of new health and wellness range targeting breakfast occasions from Ornua Nutrition Ingredients UK;

Development of new cheese ingredient solutions for targeted customers in North America.

Philip Thornton, NDC & Kerrygold Quality Milk Award Finalist 2016

On our dairy farms, it all begins with the grass; our cow's daily diet. Our grass-based production system is among the most sustainable in the world.

OUR WAY MATTERS

Our Way Matters

Our Way Matters is Ornua's sustainability framework.

Our vision is to embed an inspiring and robust sustainability framework throughout our business that empowers our staff, provides leadership to our members and supports our customers, so that, together, we can safeguard our industry for future generations.

The Our Way Matters framework contains three pillars; Our Way of Farming, Our Way of Operating and Our Way of Supporting. Each pillar sets out positive environmental, economic and social initiatives that benefit our environment, our business and our community.

At Ornua, we are dedicated to growing our business in a responsible manner. Every year we challenge the expectations we have of ourselves and those of our stakeholders, we constantly see opportunities to make a difference, while at the same time strengthening our business for the long-term. Sustainability is embedded in the way we do business – and we believe that our way matters.

Our Way of Farming

The way we support and promote Ireland's grass-fed family farming system.

Our Way of Operating

The way we drive sustainable operational practices across our plants and supply chain to reduce our impact on the environment.

Our Way of Supporting

The way we create shared value for our many stakeholders; our staff, members and farmers, customers, industry and communities.

Our Way of Farming

Our Way of Farming is the way we support and promote Ireland's grass-fed family farming system. In Ireland, we have a long, proud and prosperous dairy farming heritage. Ireland's grass-based farming system provides the perfect environment for sustainable dairy farming. Since the removal of EU milk quotas in 2015, the Irish dairy industry has been expanding, and it is now more important than ever to farm in a responsible and sustainable manner.

The Sustainable Dairy Assurance Scheme

Ireland's national Sustainable Dairy Assurance Scheme provides Ornua with a mechanism to promise our customers of the sustainability commitments from our farmers, which empowers us to successfully market Ireland's dairy products globally. We are proud to have continuously supported the scheme right from the early stages of its development.

170+ criteria

The Sustainable Dairy Assurance Scheme independently audits dairy farmers against over 170 criteria at 18-month intervals.

The independent audit is the only dairy scheme of its kind in the world, examining dairy farms against over 170 criteria at 18-month intervals, calculating the carbon footprint of every Irish dairy farm while also verifying the cow's grass-based diet. In 2016, the number of farms certified to the scheme rose by 22% nationally and we are well on our way to reaching 100% farmer participation.

The way we farm provides the foundation of our products and, at Ornua, we are proud to bring the unique story of Irish dairy farming to customers and consumers all over the world.

"My ethos on farm is following on with what I have learned from how my father farmed – it has to be sustainable, profitable and enjoyable. As a family farm, we would not be successful if we are missing one of those vital components."

Tom Power, NDC & Kerrygold Quality Milk Award Winner 2016

OUR WAY MATTERS (continued)

"Welfare of all the animals is paramount on our farm. The preventative steps taken on a daily basis is the cornerstone for all milk quality results that follow."

Jim Byrne, NDC & Kerrygold Quality Milk Award Finalist 2016

NDC & Kerrygold Quality Milk Awards

Each year, in partnership with the NDC, we support and run the NDC & Kerrygold Quality Milk Awards. This is a national award programme which recognises standards of excellence in dairy farming and celebrates top-quality dairy farmers in Ireland.

All of the 2016 nominees and national finalists are certified to Bord Bia's Sustainable Dairy Assurance Scheme with pro-active farm practices which help to optimise outdoor grazing season length, promote on-farm biodiversity and wildlife conservation, improve grassland management and enhance the genetic merit of the herd.

"The overall approach on this farm is to have high standards, adapt to changing situations and to use new proven technologies to maintain improvement in all facets of the farming operation."

Philip Thornton, NDC & Kerrygold Quality Milk Award Finalist 2016

"As the 5th generation farmer on this land, I believe sustainable farming and protection of the environment is the only way to secure its future."

Gary Horan, NDC & Kerrygold Quality Milk Award Finalist 2016

Our Way of Operating

Our Way of Operating is the way we drive sustainable operational practices across our plants and supply chain to reduce our impact on the environment.

In 2015 we launched The Ornua Way, our operational excellence programme. The framework is based on lean manufacturing principles which will further strengthen the efficiency of our sites all over the world. Striving for continuous improvement ensures we minimise our impact on the environment while driving efficiencies in our operations.

We are proud to have implemented best practice initiatives at our sites throughout 2016. Some of the highlights include:

- All established manufacturing sites have now achieved a minimum BRC "AA" Global Standard Accreditation
- ISO 50001 compliance and ZNU certification at Ornua Deutschland
- ESOS compliance at all Ornua UK sites
- 20% reduction in water consumption at Ornua Ingredients North America's Hilbert site
- 5% reduction in electricity usage per tonne of product at Ornua Asia
- Client and Supplier Collaboration award winner at the Irish Logistics and Transport Awards 2016

Ornua & Origin Green

Origin Green IRELAND

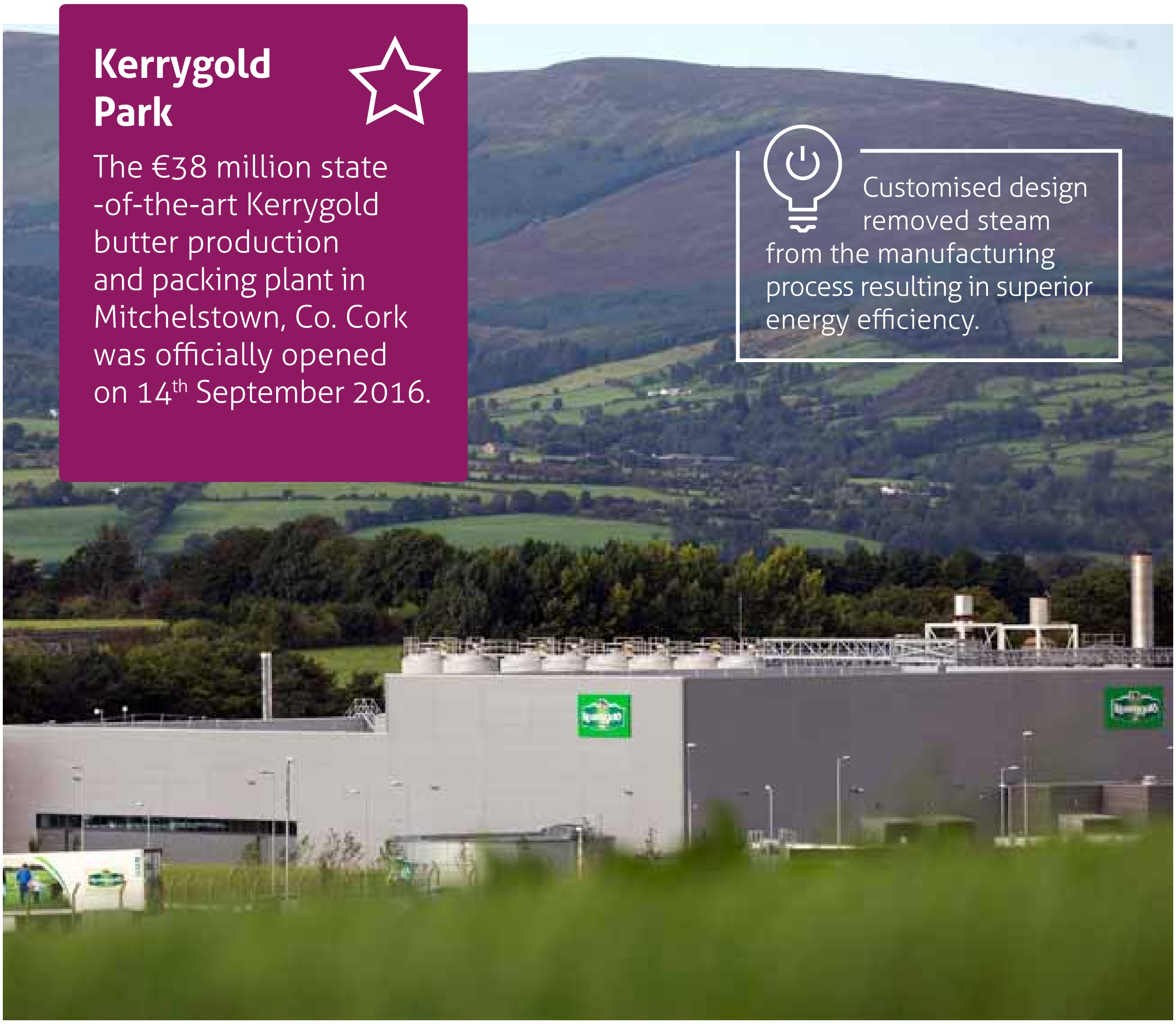
Ornua is a founding member of Origin Green, a unique sustainability programme which unites government, industry and farmers. Members of this programme must work towards achieving ambitious targets in the areas of raw material sourcing, manufacturing processes and social sustainability. The programme helps to protect Ireland's sustainability credentials, such as our grass-fed advantage, and makes further progress in a measured and independently verified manner. Ornua was the first dairy company to achieve Origin Green accreditation. We have worked to support our members on their Origin Green journey and today 100% of our member-suppliers are participating in Origin Green.

We are also proud to support the Origin Green Ambassador Programme which sends a group of 10 ambassadors worldwide each year to promote Origin Green while working on sustainability projects with some of our industry's key customers.

OUR WAY MATTERS (continued)

Kerrygold Park

The €38 million state-of-the-art Kerrygold butter production and packing plant in Mitchelstown, Co. Cork was officially opened on 14th September 2016.



Customised design removed steam from the manufacturing process resulting in superior energy efficiency.

Key sustainability features of Kerrygold Park include:

- Co-location with a key raw material supplier reducing environmental impact associated with transport
- Implementation of SEAI Energy Efficient Design
- Access to existing anaerobic digester and combined heat and power plant
- 96% of onsite construction and demolition waste was diverted away from landfills
- Rainwater harvesting
- Use of low-emitting adhesives, sealants, paints, coatings and flooring systems
- Water supply from an on-site well
- Minimalist water use programme using lean methodologies
- Dedicated energy charging points for electric cars

100%
of wood-based materials used in the build meet FSC certification

Our Way of Supporting

Our Way of Supporting is the way we create shared value for our many stakeholders; our staff, members and farmers, customers, industry and communities.

Our co-operative ethos is central to how we do business. We work in conjunction with industry bodies and charities to empower them to make progress on their goals and we are acutely aware that supporting industry and local organisations is a key part of how we deliver value to our stakeholders.

We take pride in supporting projects and organisations that help us make a difference in the world.

Initiatives and organisations supported in 2016 included:

- FoodCloud Hubs
- Kerrygold Ballymaloe Literary Festival of Food & Wine
- Tesco Supplier Network sustainability workshop hosted at Kerrygold Park
- Agri Aware – Irish agri-food educational body
- Animal Health Ireland
- The National Dairy Council
- Macra na Feirme – young Irish farmers' organisation
- Athrú – women's culinary arts initiative
- Cork Butter Museum
- Focus Ireland Shine a Light Campaign
- Goal Duvet Day
- Cancer Research UK (Ornua Ingredients UK)
- Save The Children (Ornua Ingredients UK)
- Healthy Lunch Break Initiative with 350 Kindergardens (Ornua Deutschland)

OUR WAY MATTERS (continued)

Commit to Fit & Kerrygold Mile

In October 2016, in anticipation of the first international Kerrygold Mile, an eight-week running programme was launched for staff called Commit to Fit. Commit to Fit was launched by Irish international athlete David Gillick at Ornua's headquarters. The programme detailed top nutritional, health and wellbeing advice. All staff members were invited to join their choice of exercise programme which ranged from lunchtime gym sessions, walking groups and running groups led by professional trainers. Staff from the US, Dublin, Kerrygold Park and Moorepark participated in the Kerrygold Mile challenge which culminated in a one mile fun run or walk for staff followed by Ornua's traditional Christmas lunch.

Ornua Graduate Programme

2016 saw the relaunch of Ornua's Graduate Programme which provides exceptional opportunity for graduates to grow their career in the agri-food industry. Some of Ornua's senior leaders started their careers as graduate trainees and now provide advice and guidance through mentoring as part of the programme. All graduates gain exposure to multiple areas within the business through three rotations over an 18-month period.

Group Talent Strategy

In 2016, to support our staff, we launched a new Group Talent Strategy that encompasses four pillars;

– Managing for performance,

– Talent acquisition,

– Total rewards,

– Talent development.

CORPORATE GOVERNANCE

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 10 ordinary meetings in 2016 which covered routine Board business. Separate strategically themed workshop meetings were also held.

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.

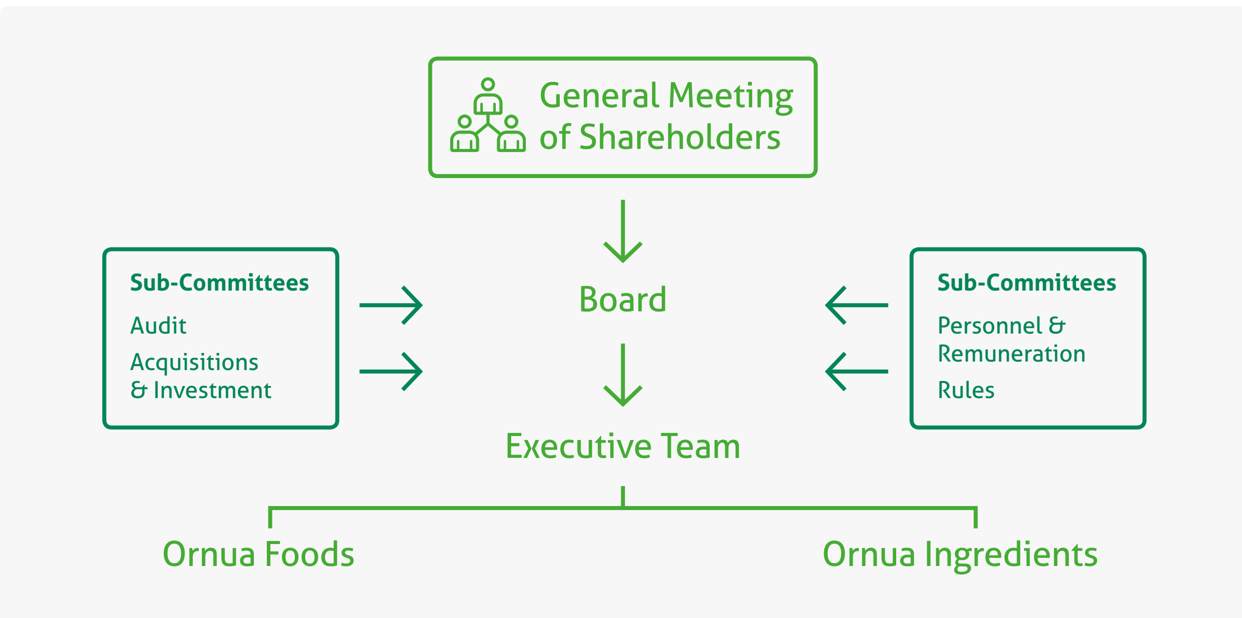
Board Performance Evaluation

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

THE HOME OF IRISH DAIRY



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.

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 Sub-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 sub-committees.

Audit Sub-Committee

The Audit Sub-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 Sub-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 Sub-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 Sub-Committee

The Personnel and Remuneration Sub-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 Sub-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 Sub-Committee

The Acquisitions and Investment Sub-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 Sub-Committee and are then escalated for Board consideration. Approved projects are reviewed periodically by the Acquisition and Investment Sub-Committee to ensure they are being implemented in accordance with the approvals received.

Rules Sub-Committee

The Rules Sub-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 Sub-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 Sub-Committee throughout the year. The Internal Audit function reports directly to the Chairman of the Audit Sub-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 Sub-Committee (as delegated by the Board) with reports on the external audit of the Group. The Sub-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 Sub-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 Sub-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 Sub-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 Sub-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.

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.

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 and 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 31 December 2016

The Directors submit their report together with the audited financial statements for the period ended 31 December 2016.

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 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 the 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

The Group is engaged in the purchase, marketing, and sale of consumer dairy products and dairy food ingredients worldwide through its subsidiaries and extensive network of agents and distributors. The Group is comprised of two divisions; Ornua Foods and Ornua Ingredients. Ornua Foods' activities are supported by wholly-owned subsidiaries and in-market teams in Ireland, the UK, Germany, the US, Africa, Asia, Europe and the Middle East. Consumer dairy products are marketed primarily under the Kerrygold, Pilgrims Choice, Dubliner, Shannongold, Forto and BEO milk powder brands. Ornua Ingredients sells and trades products across the globe and its facilities include powder drying, blending and packing in the UK and the US and cheese ingredient manufacturing in Saudi Arabia, Spain, the UK and the US. Ornua's foodservice business develops products and services focused on the Group's core competencies in cheddar, pizza cheese and cheese formatting. To manage volatility, the Group has invested in people and systems to elevate trading expertise/ capability from a strength to a core competence.

Excluding DPI Specialty Foods, which was sold at the end of 2015, 2016 saw revenue growth in the business of 9.1% to €1.75 billion and Group EBITDA* increased by 18.4% to €43.1 million. The Group closed the year with net cash of €57.2 million compared to net debt of €17 million in 2015 and a very strong Balance Sheet with net assets in excess of €500 million.

Product purchases rose by 7%, year-on-year, outstripping the rise in Irish milk supply of 4%. Over the last four years, Irish purchases have grown by 33%. This growth demonstrates Ornua's strong product price returns.

Reflecting 2016's strong performance, a Members' Bonus of €14.5 million was declared including a bonus from the gain on the disposal of DPI Specialty Foods of €5 million (in addition to the DPI related bonus of €15 million already paid in early 2016).

2016 will be remembered as a tough year for the Irish dairy industry with Irish milk prices falling in the first half of the year (H1), before recovering late in the second half (H2), as global commodity prices increased. H1's tough market conditions were reflected in the Ornua Purchase Price Index (PPI) which fell to a record low of 81.0 in June 2016. In recognition of the on-farm challenges experienced by Irish dairy families due to the global dairy market downturn, the Ornua Board suspended the monthly Ornua milk levy from 1 May 2016. The Ornua PPI increased to 103.8 by December with farm gate prices recovering to 30 cpl on the back of improved butter and cheese commodity prices. The driver for this improvement was a sharp contraction in global milk supply as EU, Oceania and

Argentinian farmers reacted to lower farm gate prices and wet southern hemisphere weather by reducing herd size and supplementary feed levels.

While market returns have started to recover, volatility is a constant and must be managed. New markets and premium and differentiated products are key to offsetting market volatility risks. Ornua has enhanced its trading competency to further protect the business, customers and members. An important component of this is members' fixed milk price schemes which help to insulate farmers and customers from the impacts of volatility. The Group will continue to offset risk by seeking new markets, develop premium and differentiated products and invest in trading expertise.

In 2016 the Group acquired the CoreFX Ingredients division of MCT Dairies, Inc. and a powder ingredient production facility in Illinois in the US. The newly named business, CoreFX Ingredients LLC, complements Ornua's existing ingredients production facilities in Saudi Arabia, Spain, the UK and the US, delivering scale and shared dairy technologies.

The key highlight of 2016 was the official opening of Kerrygold Park, a €38 million state-of-the-art Kerrygold butter production and packing plant in Mitchelstown, Co. Cork. The production facility has a butter and mixed fat spread production capacity of 50,000 tonnes of butter and capability to produce new butter products and formats. Kerrygold Park ensures a world-class supply chain to support Kerrygold's ambitious growth targets of becoming a €1 billion brand in the coming years.

Ornua Foods continued to deliver strong growth, maintaining market-leading positions in many of its core markets. In the US, Kerrygold delivered a 20% growth in sales. In Germany, Ornua Deutschland achieved a record year of growth across the business. To support its continued growth, the business is investing €10 million in expanding its manufacturing facilities. The division's brands continued to perform well in the UK, with Pilgrims Choice being the only cheese brand continuing to enjoy consistent growth and Kerrygold growing in both value and volume of sales.

Ornua Ingredients is playing an increasingly important role in delivering routes to market for Irish dairy products. The division handled record volumes in 2016, reflecting Ornua's strong product price returns. While overall, performance was solid, there was a mixed performance within the division, with strong growth in the US and Spain offset by challenges in the UK. Dairy trading is playing an increasingly important role in managing price volatility in today's competitive global market.

Key 2016 Operational Highlights:

- Strong performance – Group EBITDA* increased by 18.4%** to €43.1 million
- Delivery of a new Group 5-Year Plan, Ornua 2021;
- Record product purchases up 7%;
- Launch of Kerrygold Spreadable in the UK and Kerrygold Yogurts in Germany;
- Commissioning and opening of Kerrygold Park, a butter production and packing plant in Mitchelstown, Co. Cork;
- Commissioning and opening of Ornua Saudi Arabia's cheese plant in Riyadh - Al Wazeen;
- Successful integration of Shanghai-based dairy manufacturer, Ambrosia Dairy, into Ornua Asia;
- Acquisition and integration of US powder ingredients business, CoreFX Ingredients;
- Achievement of BRC "AA" Global Standard Accreditation by all established manufacturing sites. Launch of The Ornua Way operational excellence programme with five sites being accredited in 2016. Implementation of lean manufacturing principles;
- Launch of a new Global HR Strategy that encompasses four pillars; managing for performance, talent acquisition, total rewards and talent development;
- Completion of the Ornua identity rollout across all Group locations.

A New Strategy for Ornua

2016 marked the completion of Ornua's Business Transformation Strategy. This strategy successfully prepared the Group for the removal of EU milk quotas. It delivered significant growth for the business and, unquestionably, gave clear focus to the business operations.

In 2016, the Group reviewed all aspects of the business and mapped out a new strategic plan for the next five years. The Group's 5-Year Plan is called Ornua 2021. It is an ambitious plan, which seeks to build new routes to market and develop existing ones. Our ambition is to build sustainable and value-added routes to market for Irish dairy products that will generate revenues of €3 billion and deliver a sustainable EBITA margin of 3% by 2021. Ornua 2021 maps out the means, by which, to achieve these targets and is complimented by the new Global HR Strategy.

Research and Development

Innovation has played a critical role in the Group's success over recent years. The Innovation team has made great progress in developing innovative branded and ingredients products to meet consumer and customer needs across global markets. The Group will continue to invest its consumer and market insight capabilities to drive its growth plan.

Health and Safety

It is the policy of the Group to ensure the safety, health and welfare of its staff, contractors and members of the public by ensuring that each Group site operates in full conformance with local legislative requirements and that appropriate policies and practices are in place to ensure safety in the workplace.

Subsidiary Undertakings

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

* Before exceptional items
** Excluding DPI which was disposed in 2015.

DIRECTORS' REPORT for the period ended 31 December 2016 (continued)

Executive and Directors' Remuneration

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, the CEO and Senior Executives. The Sub-Committee prepares their 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 (2015: nil).

Corporate Governance

The Corporate Governance section on pages 34 to 37 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

Except for the following, there have been no significant events since the period end which require disclosure in the financial statements:

In January 2017, the Group announced that it has signed an agreement to acquire F.J. Need (Foods) Limited, the Cheshire-based cheese ingredients company. F.J. Need supplies a comprehensive range of British and Irish cheese ingredients to the foodservice and food manufacturing sectors. Ornua has been a supplier of high quality Irish cheese to F.J Need for many years and the acquisition will strengthen this important supply channel. Completion of the acquisition is subject to UK competition approval.

Board Members to End December 2016

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 Ingredients Ireland Limited
John Comer (iv)		Irish Creamery Milk Suppliers Association
Denis Cregan (ii) (iv)		Independent Non-Executive Director
Michael Hanley (i)		Lakeland Dairies Co-operative Limited
Martin Keane (i)	Chairman of the Audit Sub Committee	Glanbia Co-operative Society Limited
James Lynch (ii)		Dairygold Co-operative Society Limited
Dan MacSweeney (ii) (iv)		Carbery Food Ingredients Limited
Ted O'Connor (iii)	Retired December 2016	Tipperary Co-operative Creamery 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: John Daly, from Tipperary Co-operative Creamery Limited, was appointed to the Board with effect from 1 January 2017.

Committee Members as at 31 December 2016

(i) Member of the Audit Committee
(ii) Member of the Rules Sub-Committee
(iii) Member of the Personnel and Remuneration Sub-Committee
(iv) Member of the Acquisitions and Investment Sub-Committee

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

Martin Keane
Director

INDEPENDENT AUDITORS' REPORT to the members of Ornua Co-operative Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the period then ended; and
- have been prepared in accordance with Generally Accepted Accounting Practice in Ireland.

What we have audited

The financial statements comprise:

- the Group Balance Sheet as at 31 December 2016;
- the Group Income Statement for the period then ended;
- the Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland".

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Matter on which we are required to report by the Industrial and Provident Societies Act

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements giving a true and fair view.

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

This report, including the opinions, has been prepared for and only for the society's members as a body in accordance with section 13 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
15 March 2017

GROUP INCOME STATEMENT for the period ended 31 December 2016

	Notes	2016 Total €'000	2015 Continuing operations €'000	2015 Discontinued operations €'000	2015 Total €'000
Turnover		**1,749,367**	1,603,906	939,507	2,543,413
Cost of sales		**(1,511,904)**	(1,402,903)	(759,593)	(2,162,496)
Gross profit		**237,463**	201,003	179,914	380,917
Selling and distribution expenses		**(157,932)**	(135,812)	(140,534)	(276,346)
Administration expenses – excluding amortisation		**(46,989)**	(38,933)	(20,424)	(59,357)
Administration expenses – amortisation		**(5,931)**	(8,003)	(3,107)	(11,110)
Operating profit before exceptional items		**26,611**	18,255	15,849	34,104
Exceptional items	4	**(6,777)**	(4,525)	48,751	44,226
Operating profit after exceptional items		**19,834**	13,730	64,600	78,330
Share of results of associates	11	**650**	–	–	–
Interest payable (net)	5	**(3,708)**	(4,640)	(41)	(4,681)
Net interest expense on DB pension schemes	25	**(997)**	(1,158)	–	(1,158)
Profit on ordinary activities before taxation	2	**15,779**	7,932	64,559	72,491
Tax on profit on ordinary activities	6	**(9,323)**	(5,822)	(11,837)	(17,659)
Profit for the financial period		**6,456**	2,110	52,722	54,832
Profit attributable to:					
Owners of the parent		**7,131**	2,612	52,722	55,334
Non-controlling interest		**(675)**	(502)	–	(502)
		6,456	2,110	52,722	54,832

The notes on pages 47 to 74 form part of these financial statements.

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

Martin Keane
Director

GROUP STATEMENT OF COMPREHENSIVE INCOME for the period ended 31 December 2016

	2016 €'000	2015 €'000
Profit for the period	**6,456**	54,832
Other Comprehensive Income		
– Remeasurement of net defined benefit obligation	**(11,757)**	13,548
– Cash flow hedges		
– Change in value of hedging instruments	**(5,258)**	902
– Reclassification to profit and loss	**(902)**	5,108
– Currency translation differences	**(10,948)**	30,075
– Total tax on components of other comprehensive income	**2,604**	(2,988)
Other comprehensive income for the period, net of tax	**(26,261)**	46,645
Total comprehensive income for the period	**(19,805)**	101,477
Total comprehensive income attributable to:		
Owners of the parent	**(18,985)**	101,841
Non-controlling interest	**(820)**	(364)
	(19,805)	101,477

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

Martin Keane
Director

GROUP BALANCE SHEET as at 31 December 2016

	Notes	2016 €'000	2015 €'000
Fixed assets			
Intangible assets	8	**60,016**	63,740
Tangible assets	9	**173,377**	156,095
Associates	11	**1,940**	1,205
Loans to associates	11	**12,278**	10,837
Other investments	11	**48**	48
		247,659	231,925
Current assets			
Inventories	12	**452,717**	548,572
Debtors	13	**265,411**	277,289
Restricted cash	23	**3,742**	7,316
Cash and bank balances	22	**57,155**	165,957
		779,025	999,134
Creditors: amounts falling due within one year	14	**(448,876)**	(473,291)
Net current assets		**330,149**	525,843
Total assets less current liabilities		**577,808**	757,768
Creditors: amounts falling due after one year	17	**(7,434)**	(187,314)
Post employment benefits	25	**(44,962)**	(34,018)
Provision for liabilities	19	**(21,890)**	(9,163)
Net assets		**503,522**	527,273
Capital and reserves			
Called up share capital	20	**19,607**	19,569
Revenue reserves	20	**466,414**	482,235
Cash flow hedging reserve	20	**(4,372)**	713
Share premium	20	**32**	32
Capital levy account	20	**256**	256
Members' equity interest (before annual bonus fund and redeemable loan stock)		**481,937**	502,805
Annual bonus fund	7	**–**	4,000
Redeemable loan stock	7	**20,502**	19,016
Members' funds		**502,439**	525,821
Non-controlling interest		**1,083**	1,452
		503,522	527,273

The notes on pages 47 to 74 form part of these financial statements.

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

Martin Keane
Director

GROUP STATEMENT OF CHANGES IN EQUITY for the period ended 31 December 2016

	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 27 December 2014	19,524	32	(4,238)	256	392,697	4,500	20,501	433,272	1,388	434,660
Profit for the period	–	–	–	–	55,334	–	–	55,334	(502)	54,832
Other comprehensive income/(expense) for the period:										
Remeasurement of net defined benefit obligation	–	–	–	–	13,548	–	–	13,548	–	13,548
Cash flow hedges										
– Change in value of hedging instruments	–	–	902	–	–	–	–	902	–	902
– Reclassification to profit and loss	–	–	5,108	–	–	–	–	5,108	–	5,108
Currency translation differences	–	–	–	–	29,937	–	–	29,937	138	30,075
Total tax on component of other comprehensive income	–	–	(1,059)	–	(1,929)	–	–	(2,988)	–	(2,988)
Transfers to/from annual bonus fund	–	–	–	–	(4,000)	(500)	4,500	–	–	–
Recognition of call option liability	–	–	–	–	(3,352)	–	–	(3,352)	–	(3,352)
Non-controlling interest arising on business combinations and acquisition of non-controlling interests	–	–	–	–	–	–	–	–	331	331
Redemption of loan stock	–	–	–	–	–	–	(5,940)	(5,940)	–	(5,940)
Issue of shares	45	–	–	–	–	–	(45)	–	97	97
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 combinations (note 10)	–	–	–	–	–	–	–	–	451	451
Redemption of loan stock	–	–	–	–	–	–	(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**

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

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

Martin Keane
Director

GROUP CASH FLOW STATEMENT for the period ended 31 December 2016

	Notes	2016 € '000	2015 € '000
Cash generated from operations	21	**141,118**	(19,913)
Income tax paid		**(15,059)**	(8,390)
Net cash inflow/(outflow) from operating activities		**126,059**	(28,303)
Cash flows from investing activities			
Purchases of property, plant and equipment	9	**(33,711)**	(44,398)
Purchases of intangible assets	8	**(325)**	(789)
Proceeds from sale of property, plant and equipment		**201**	4,231
Proceeds from sale of available-for-sale financial assets		**–**	16
Proceeds from sale of subsidiary undertaking (net of cash disposed)		**–**	169,718
Purchase of subsidiary undertakings (net of cash acquired)	10	**(6,017)**	(11,695)
Interest received		**387**	762
Increase in restricted cash	23	**3,574**	517
Net cash (used in)/generated from investing activities		**(35,891)**	118,362
Cash flows from financing activities			
Interest paid		**(5,676)**	(5,842)
(Repayment of)/proceeds from borrowing	16	**(175,000)**	40,000
Payments in respect of loan stock redeemed		**(4,901)**	(6,576)
Net cash (used in)/generated from financing activities		**(185,577)**	27,582
Net (decrease)/increase in cash and cash equivalents and bank overdrafts in the period		**(95,409)**	117,641
Balance at beginning of period		**157,726**	35,672
Foreign exchange (losses)/gains		**(5,162)**	4,413
Cash and cash equivalents at the end of period	22	**57,155**	157,726

On behalf of the board of Directors

Aaron Forde
Chairman
15 March 2017

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 liability at the fair value of the plan assets less the present value of the defined benefit obligation. The 2016 financial statements are for a 53 week period (2015: 52 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 27 December 2015 to 31 December 2016 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. The results of associates 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(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 and included in exceptional items.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(k) Business combinations and goodwill (continued)
Goodwill is amortised over its expected useful life 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(n) Employee benefits (continued)

(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.

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 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 or associate 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(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.

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.

Rates used for translation of results and net assets into Euro:

	Average Rates		Period End Rates	
	2016	2015	**2016**	2015
€ 1 =				
US$	**1.1065**	1.1114	**1.0515**	1.0962
GBP£	**0.8178**	0.7267	**0.8521**	0.7346
SAR	**4.1476**	4.1672	**3.9405**	4.1114
CNY	**7.3454**	6.9048	**7.3016**	7.0822

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(r) Foreign currency translation (continued)

(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.

(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 publicly traded and whose fair values cannot be measured reliably, in which case the investments are measured at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

(v) Financial instruments (continued)

(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 an ongoing basis, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Statement of accounting policies (continued)

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

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.

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)

	2016 € '000	2015 € '000
Depreciation (note 9)	**10,540**	13,600
Amortisation of intangible assets (note 8)	**5,931**	11,110
Operating lease expense	**2,241**	15,265
Auditor's remuneration – audit fee	**552**	567
Reclassification of prior period fair value (gains)/losses on derivatives	**(902)**	5,108
Impairment of trade receivables – credit	**(822)**	(3,642)
Exchange differences – charge	**1,150**	1,276

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Employees and remuneration

	2016 No.	2015 No.
The average number of persons employed by the Group is analysed into the following categories:		
Production	**1,301**	1,646
Selling and distribution	**326**	1,582
Administration	**288**	414
	1,915	3,642

The staff costs are comprised of:

	2016 € '000	2015 € '000
Wages and salaries* (including termination benefits of €0.3m (2015: €2.0m))	**78,096**	158,059
Social welfare costs	**7,445**	22,013
Pension costs	**4,032**	6,216
Negative past service cost (included in exceptional items)	**–**	(5,087)
Staff costs included in operating profit	**89,573**	181,201
Pension – other finance costs (net)	**997**	1,158
Total charged to Income Statement	**90,570**	182,359
Actuarial loss/(gain) on defined benefit pension schemes (net of deferred taxation) – charged to comprehensive income	**10,228**	(11,619)
Total aggregate payroll costs	**100,798**	170,740

*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:

	2016 € '000	2015 € '000
Income Statement		
Cost of sales	**41,659**	41,725
Selling and distribution expenses	**19,929**	113,277
Administration expenses	**27,985**	31,286
Exceptional items	**–**	(5,087)
Included in operating profit	**89,573**	181,201
Other finance costs (net)	**997**	1,158
Total charged to Income Statement	**90,570**	182,359
Statement of Comprehensive Income		
Actuarial loss/(gain) on defined benefit pension schemes (net of deferred tax)	**10,228**	(11,619)
Total aggregate payroll costs	**100,798**	170,740

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Exceptional items

	2016 €'000	2015 €'000
Bonus payable to members out of the DPI gain (i)	**(5,000)**	(15,000)
Restructuring costs (ii)	**(1,777)**	(3,680)
Gain on sale of DPI business (iii)	–	67,556
Provisions booked following DPI disposal (iv)	–	(3,805)
Impairment of intangible assets (v)	–	(5,932)
Negative past service cost (vi)	–	5,087
	(6,777)	44,226

2016

(i) 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 will be paid in April 2017.

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

2015

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

(ii) During the period the Group incurred restructuring costs (including redundancy costs) across a number of its businesses.

(iii) Gain on the sale of the Group's US specialty foods distribution business, DPI Specialty Foods, Inc.

(iv) In conjunction with the disposal of the DPI business the Group has made provision for certain costs to be incurred by the Group following the DPI disposal.

(v) The Group carried out an impairment review of certain of its goodwill and intangible assets, by comparing the assets recoverable amount to its carrying value and as a result an impairment of €5.9m was recognised. This impairment was a result of the competitive nature of the market which resulted in the recoverable amount of certain intangibles being less than their carrying amount.

(vi) Negative past service cost as a result of Section 50 application from the Trustees of the Irish Defined Benefit Plan to the Irish Pensions Board, which was approved during 2015.

5. Interest payable (net)

	2016 €'000	2015 €'000
Interest payable on bank loans and overdrafts:		
Repayable within 5 years, other than by instalments	**5,014**	5,409
Interest receivable	**(1,306)**	(728)
	3,708	4,681

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax on profit on ordinary activities

	2016 €'000	2015 €'000
Analysis of taxation charge in the period		
Current tax		
Irish corporation tax on the profit for the period	98	–
Adjustments in respect of previous periods	–	(69)
	98	(69)
Foreign tax		
Foreign corporation tax on profit for the period	7,488	19,823
Adjustments in respect of previous periods	999	(815)
	8,487	19,008
Total current tax	8,585	18,939
Deferred tax		
Origination and reversal of timing differences	872	(1,049)
Impact of change in tax rates	(134)	(231)
Tax on profit on ordinary activities	9,323	17,659
Tax (income)/expense included in Other Comprehensive Income	(2,604)	2,988

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.

	2016 €'000	2015 €'000
Profit on ordinary activities before taxation	15,779	72,491
Profit on ordinary activities at the standard rate of corporation tax in Ireland of 12.5%	1,972	9,061
Effects of:		
Foreign rates of tax different from Irish rates	2,827	9,584
Non utilisation of tax losses (net)	1,914	2,675
Expenses/income not deductible/taxable (net)	302	(1,199)
Movement in other timing differences	1,309	(1,578)
Adjustments in respect of prior periods	999	(884)
Total tax	9,323	17,659

The only significant change during 2016 in the tax rates applying to the Group's subsidiaries was the change in the Spanish corporation tax rate from 28% to 25% on 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2016 is €Nil (2015: €4.0m).

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 €2.5m (2015: €5.9m) issued in respect of the 2011 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 €4.9m in 2016 (2015: €6.6m).

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

	2016 € '000	2015 € '000
At beginning of period	**19,016**	20,501
Transferred from annual bonus fund	**4,000**	4,500
Redemption/issue of loan stock/share capital	**(2,514)**	(5,985)
At end of period	**20,502**	19,016

(b) Total bonuses payable		
Annual cash bonus (charged to operating profit)	**9,500**	10,000
Special DPI related bonus (charged to exceptional items)	**5,000**	15,000
Redeemable loan stock (transfer to annual bonus fund)	**–**	4,000
	14,500	29,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Intangible assets

	Goodwill 2016 € '000	Other Intangibles 2016 € '000	Computer Software 2016 € '000	Total 2016 € '000
Cost				
At beginning of period	77,439	28,326	3,372	109,137
Additions in the period	–	–	325	325
Arising on acquisition of businesses (note 10)	1,390	496	–	1,886
Translation adjustment	1,048	(1,920)	(10)	(882)
	79,877	26,902	3,687	110,466
Amortisation				
At beginning of period	36,999	7,620	778	45,397
Amortised during the period	3,439	2,135	357	5,931
Translation adjustment	67	(955)	10	(878)
	40,505	8,800	1,145	50,450
Net book amount				
At end of period	**39,372**	**18,102**	**2,542**	**60,016**
At beginning of period	**40,440**	**20,706**	**2,594**	**63,740**

The Group expensed €4.6m in research and development expenditure in the period (2015: €4.4m).

Amortisation is classified within administration expenses in the Income Statement. The remaining amortisation period of the goodwill ranges from 9-14 years. The remaining amortisation period of other intangibles ranges from 7-21 years.

In 2015 the initial accounting for the acquisition of Ambrosia Dairy was provisional. This has been finalised in 2016. As a result the following changes have been made to the original fair values;
– Other intangible assets have increased by €3.5m, goodwill has decreased by €2.6m and non-controlling interest has increased by €0.9m.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Tangible assets

	Land and Buildings			Plant Equipment and Vehicles	Total
	Freehold Land € '000	Freehold Buildings € '000	Leasehold Buildings € '000	€ '000	€ '000
Cost					
At beginning of period	6,607	106,364	158	145,471	258,600
Reclassification	–	8,320	–	(8,320)	–
Additions in the period	482	1,953	41	31,235	33,711
Arising on business combinations (note 10)	–	–	–	1,478	1,478
Disposals in the period	(7)	(30)	–	(4,940)	(4,977)
Translation adjustment	(132)	(6,211)	(23)	(9,234)	(15,600)
	6,950	110,396	176	155,690	273,212
Depreciation					
At beginning of period	–	24,500	137	77,868	102,505
Charge for the period	–	2,145	9	8,386	10,540
Disposals in the period	–	(27)	–	(4,749)	(4,776)
Translation adjustment	–	(1,723)	(19)	(6,692)	(8,434)
	–	24,895	127	74,813	99,835
Net book amount					
At end of period	**6,950**	**85,501**	**49**	**80,877**	**173,377**
At beginning of period	**6,607**	**81,864**	**21**	**67,603**	**156,095**

The buildings, plant, equipment and vehicles are insured at a value of €269.3m (2015: €217.2m). €10m (2015: €10m) of property, plant and equipment has been pledged as security.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Acquisition of businesses

In June 2016 the Group purchased certain assets (including intangible assets) from a number of parties in the US. The combined acquisitions formed the Group company CoreFX Ingredients LLC of which the Group owns 90%.

	2016 Fair Value € '000
Fair value of the net assets acquired at date of acquisition were as follows:	
Intangible assets (excluding goodwill) (note 8)	496
Tangible assets (note 9)	1,478
Inventory	1,240
	3,214
Non-controlling interest	(451)
Net assets acquired	2,763
Goodwill arising on acquisitions (note 8)	1,390
Total acquired	4,153
Satisfied by:	
Cash consideration (includes €0.2m of acquisition costs)	4,153
Consideration paid in 2016:	
On current period acquisitions	4,153
Deferred consideration on prior period acquisitions	1,864
	6,017

In 2016 book value equated to fair value of the net assets acquired, so no fair value adjustments arose on the net assets. The goodwill arising on the 2016 acquisitions is being amortised over 15 years.

In 2015 the initial accounting for the acquisition of Ambrosia Dairy was provisional. This has been finalised in 2016. As a result the following changes have been made to the original fair values;
– Other intangible assets have increased by €3.5m, goodwill has decreased by €2.6m and non-controlling interest has increased by €0.9m.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Associates & other investments

	2016 € '000	2015 € '000
Associates		
At beginning of period	**1,205**	–
Additions in the period	**–**	1,197
Share of profit after tax during the period	**650**	–
Translation adjustment	**85**	8
At end of period	**1,940**	1,205

	€ '000	€ '000
Loans to Associates		
At beginning of period	**10,837**	–
Additions in the period	**931**	10,761
Translation adjustment	**510**	76
At end of period	**12,278**	10,837

	€ '000	€ '000
Other investments		
At beginning of period	**48**	147
Disposal of subsidiary undertaking	**–**	(108)
Translation adjustment	**–**	9
At end of period	**48**	48

12. Inventories

Inventories at period end primarily consist of finished goods for consumption. The amount of inventories recognised as an expense in 2016 was €810m (2015: €1,498m). Reversals of impairments of inventory recognised within cost of sales were €13.3m (2015: impairments of €1.5m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Debtors

	2016 € '000	2015 € '000
Due within one year:		
Trade debtors (i) (iii)	**237,397**	243,604
Prepayments	**9,903**	10,721
Derivative financial instruments	**1,167**	699
Corporation tax debtors	**1,067**	1,956
Other debtors	**7,463**	14,372
	256,997	271,352
Due after one year:		
Deferred taxation (ii)	**8,414**	5,937
	265,411	277,289
Deferred tax arising from:		
Accelerated capital allowances	**(2,139)**	621
Derivative financial instruments	**888**	22
Post employment benefits	**6,540**	5,184
Other timing differences	**3,125**	110
	8,414	5,937

(i) Trade debtors are stated net of a provision for impairment of €2.6m (2015: €3.4m).

(ii) The Group has not recognised deferred tax assets of €4.3m (2015: €2.0m) on the basis that there is insufficient evidence that these assets will be recoverable. Deferred tax assets are expected to 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 €66.3m (2015: €41.4m) of trade debtors have been derecognised at period-end.

14. Creditors: amounts falling due within one year

	2016 € '000	2015 € '000
Trade creditors	**146,294**	145,584
Amount due to factor (note 16)	**113,223**	165,009
Derivative financial instruments	**7,030**	–
Option liability*	**3,612**	–
Accruals	**163,619**	132,190
Redeemable loan stock	**2,822**	3,416
Taxation creditors (note 15)	**9,568**	16,997
Deferred consideration on acquisitions	**667**	1,864
Other creditors	**2,041**	–
Bank overdrafts (note 16)	**–**	8,231
	448,876	473,291

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Taxation creditors

	2016 € '000	2015 € '000
Corporation tax	**7,175**	14,200
PAYE	**1,113**	1,833
PRSI	**593**	310
VAT	**687**	654
	9,568	16,997

16. Loans and overdrafts

	2016 € '000	2015 € '000
Amounts falling due within one year (overdrafts)	**–**	8,231
Amounts falling due after one year (loans)	**–**	175,000

In March 2014, the Group entered into a five year syndicated financing agreement. Current facilities available under this agreement are €235m.

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 March 2014, 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 €200m, stepping up to €305m over the period of the facility.

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 (2016: €113.2m, 2015: €165.0m) to Rabobank.

17. Creditors: amounts falling due after one year

	2016 € '000	2015 € '000
Redeemable loan stock	**4,258**	6,089
Deferred taxation (i)	**1,148**	1,540
Deferred consideration on acquisitions	**–**	1,333
Option liability*	**2,028**	3,352
Bank loans (note 16)	**–**	175,000
	7,434	187,314

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

(i) Deferred tax arising from:		
Accelerated capital allowances	**2,123**	5,473
Derivative financial instruments	**–**	210
Other timing differences	**(975)**	(4,143)
	1,148	1,540

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Financial instruments

	2016 € '000	2015 € '000
The Group has the following financial instruments:		
Financial assets at fair value through profit or loss		
Derivative financial instruments (ii)	**1,167**	699
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	**237,397**	243,604
Taxation debtors	**1,067**	1,956
Other debtors	**7,463**	14,372
Preferred shares in associate (i)	**12,278**	10,837
	258,205	270,769
Financial assets that are equity instruments measured at cost less impairment		
Other investments	**48**	48
Financial liabilities measured at fair value through profit or loss		
Derivative financial instruments (ii)	**7,030**	–
Call option liabilities (iii)	**5,640**	3,352
	12,670	3,352
Financial liabilities measured at amortised cost		
Trade creditors	**146,294**	145,584
Amount due to factor (note 16)	**113,223**	165,009
Accruals	**163,619**	132,190
Redeemable loan stock	**7,080**	9,505
Taxation creditors (note 15)	**9,568**	16,997
Deferred consideration on acquisitions	**667**	3,197
Other creditors	**2,041**	–
Bank overdrafts (note 16)	**–**	8,231
Loans (note 16)	**–**	175,000
	442,492	655,713

(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 31 December 2016 the contracts outstanding have an average maturity of 6 months (2015: 7 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 2016, a hedging loss (net of taxation) of €4.4m (2015: gain of €0.7m) 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 2016 a charge of €0.4m (2015: €Nil) 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 14 and note 17).

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Provision for liabilities

	Onerous Sales Contracts (i) € '000	Disposal Related Provisions (ii) € '000	Other Provisions (iii) € '000	Total Provisions € '000
At beginning of period	2,627	3,831	2,705	9,163
Provided during the period	16,232	–	53	16,285
Utilised during the period	(2,627)	(610)	(452)	(3,689)
Translation adjustment	–	131	–	131
At end of period	**16,232**	**3,352**	**2,306**	**21,890**

(i) The onerous sales contracts provision relates 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.

20. Share capital and reserves

	2016 No. of Shares	**2016 € '000**	2015 No. of Shares	2015 € '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**	**–**	143	–
Bonus shares of €1 each	**1,672,843**	**1,673**	1,634,863	1,635
Deferred ordinary shares of €1 each	**17,916,961**	**17,917**	17,916,961	17,917
		19,607		19,569

	2016 No. of shares '000	2015 No. of shares '000
The number of issued and fully paid ordinary shares was as follows:		
At beginning of period	**19,569**	19,524
Issue/redemption of shares	**38**	45
At end of period	**19,607**	19,569

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, bonus shares issued during the period relate to the redemption of loan stock.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Share capital and reserves (continued)

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).

21. Net cash inflow/(outflow) from operations

	2016 € '000	2015 € '000
Operating surplus before exceptional items	**26,611**	34,104
Depreciation	**10,540**	13,600
Amortisation	**5,931**	11,110
Decrease/(increase) in inventories	**91,245**	(88,518)
Decrease in debtors	**6,995**	2,587
Increase in creditors	**19,381**	13,668
Post retirement liabilities	**(2,808)**	(2,784)
Cash generated from/(used in) operations (before cash exceptional items)	**157,895**	(16,233)
Exceptional expenditure (excludes bonus paid to members from sale of DPI)	**(1,777)**	(3,680)
Exceptional expenditure – €15m bonus paid to members from sale of DPI	**(15,000)**	–
Cash generated from/(used in) operations (after cash exceptional items)	**141,118**	(19,913)

Non-cash transactions

During 2015 the Group received common and preferred shares in Nextwave Distribution Holdings Inc. to the value of €12.0m as part of the consideration for the sale of DPI Specialty Foods, Inc.

22. Cash and cash equivalents and net debt

	2016 € '000	2015 € '000
Cash and Cash equivalents consist of:		
Cash and bank balances	**57,155**	165,957
Bank overdrafts (note 16)	**–**	(8,231)
	57,155	157,726
Loans (note 16)	**–**	(175,000)
Net cash/(debt)	**57,155**	(17,274)

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Restricted cash

	2016 € '000	2015 € '000
Restricted cash on deposit	**3,742**	7,316

Deposits of €3.7m (2015: €7.3m) 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.

24. Capital commitments

	2016 € '000	2015 € '000
Commitments for which contracts have been placed	**5,239**	18,840
Commitments approved but not contracted for	**26,128**	18,036

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 to defined benefit schemes for the Group was a charge of €3.5m (2015: credit of €0.8m) of which €2.5m (2015: €3.1m) has been charged against operating profit before exceptional items and €nil (2015: €5.1m) has been credited to exceptional items and €1.0m has been charged within other finance costs (2015: €1.2m).

Contributions to defined contribution pension schemes in the period were €1.5m (2015: €3.1m).

The trustees of the Parent Society scheme have obtained an actuarial valuation dated 1 January 2014 using the projected unit valuation method. The trustees of the Ornua Foods UK Limited scheme have obtained an actuarial valuation dated 31 December 2012 using the projected unit valuation method. Valuations as at 31 December 2016 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 31 December 2016.

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 2017 are €1.9m. For the other schemes it has been agreed that an employer contribution rate of 19.2% of pensionable salary plus an additional €0.4m will apply in future years and that the expected contributions for 2017 are €0.7m.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Post employment benefits (continued)

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

	2016	2015	2016	2015
	Irish Scheme		Other Schemes	
	%	%	%	%
Inflation rate	**1.50**	1.75	**2.40**	2.20
Salary rate increases	**2.50**	2.75	**3.60**	4.35
Pension payment increases	**1.50**	1.75	**2.40**	2.20
Discount rate	**1.90**	2.60	**2.60**	3.80

In valuing the liabilities of the pension fund at 31 December 2016, 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 2016		Irish Scheme 2015		Other Schemes 2016/2015	
– Current pensioner aged 65	24 years male	26 years female	24 years male	25 years female	23 years male	25 years female
– Future retiree* upon reaching 65	27 years male	29 years female	27 years male	28 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.

	2016	2015	2016	2015	2016	2015
	Irish Scheme		Other Schemes		Total	
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Equities	**56,916**	56,335	**32,239**	36,614	**89,155**	92,949
Bonds	**17,504**	16,298	**11,672**	13,089	**29,176**	29,387
Property	**2,004**	2,249	**344**	739	**2,348**	2,988
Other	**11,500**	11,381	**815**	774	**12,315**	12,155
	87,924	86,263	**45,070**	51,216	**132,994**	137,479
Actuarial value of liabilities	**(118,086)**	(108,047)	**(59,870)**	(63,450)	**(177,956)**	(171,497)
Net deficit in the schemes	**(30,162)**	(21,784)	**(14,800)**	(12,234)	**(44,962)**	(34,018)

	2016	2015	2016	2015	2016	2015
	Irish Scheme		Other Schemes		Total	
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Analysis of the amount charged to the Group Income Statement during the period:						
Current service cost	**1,776**	2,067	**756**	1,017	**2,532**	3,084
Negative past service cost (note 4)	**–**	(5,087)	**–**	–	**–**	(5,087)
Net interest expense	**595**	741	**402**	417	**997**	1,158
	2,371	(2,279)	**1,158**	1,434	**3,529**	(845)

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Post employment benefits (continued)

	2016 € '000	2016 € '000	2016 € '000
Movement in benefit obligations during the period			
Benefit obligations at beginning of period	108,047	63,450	171,497
Current service cost	1,776	756	2,532
Interest expense	2,798	2,106	4,904
Plan participant's contributions	271	127	398
Actuarial loss	10,146	6,736	16,882
Benefits paid	(4,952)	(4,520)	(9,472)
Exchange adjustment	–	(8,785)	(8,785)
Benefit obligations at end of period	**118,086**	**59,870**	**177,956**
Movement in plan assets during the period			
Fair value of plan assets at beginning of period	86,263	51,216	137,479
Interest income	2,203	1,704	3,907
Remeasurement gains/(losses):			
Return on plan assets excluding interest income	2,272	2,853	5,125
Employer's contributions	1,867	895	2,762
Plan participant's contributions	271	127	398
Benefits paid from plan	(4,952)	(4,520)	(9,472)
Exchange adjustment	–	(7,205)	(7,205)
Fair value of plan assets at end of period	**87,924**	**45,070**	**132,994**
Deficit in schemes	**(30,162)**	**(14,800)**	**(44,962)**
Actual return on plan assets	**4,475**	**4,556**	**9,031**

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Financial commitments

(a) Operating leases
At 31 December 2016, the Group had future minimum payments under non-cancellable operating leases as follows:

	2016 € '000	2015 € '000
Payments due:		
Not later than 1 year	**2,492**	1,703
Later than 1 year and not later than 5 years	**5,907**	4,717
Later than 5 years	**8,042**	–
	16,441	6,420

(b) Bank guarantees
The Group had outstanding guarantees at the period end as follows:

	2016 € '000	2015 € '000
Bank guarantees	**5,429**	13,009

These guarantees are used to support the activities of subsidiary 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.

	2016 € '000	2015 € '000
Forward foreign currency/commodity contracts	**383,514**	355,571

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 31 December 2016 amounted to €15.3m (2015: €29.2m) and purchases from members amounted to €812.6m (2015: €785.4m). Amounts receivable from and payable to members arising from the aforementioned sales and purchases transactions as at the balance sheet date are €12.5m (2015: €6.6m) and €62.1m (2015: €47.6m) respectively. There are other payable balances of €2.0m to members.

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. In addition to the trading transactions outlined, the Group in 2015 made a transfer to the annual bonus fund which will be payable to the members. The Group has also agreed to pay an additional cash bonus to members out of the gain arising on the sale of DPI in 2015 (see note 4).

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:

	2016 € '000	2015 € '000
Total Directors fees (15 in 2016 & 14 in 2015)	**557**	509
Global Executive Remuneration (9 Executives in 2016 & 2015):		
Basic salary	**2,404**	2,310
Performance related bonus/LTIP	**998**	1,132
Other benefits	**241**	232
Employers pension contribution	**325**	309
Employers PRSI	**392**	426
Total Global Executive remuneration	**4,360**	4,409

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 optimal 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, and 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 recognised a credit of €27,000 (2015: €680,000) within employment costs in relation to the scheme, and the obligations recognised within liabilities at period end amounts to €1.1m (2015: €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
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
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	China	75	Marketing and distributing dairy food 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

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 31 December 2016, 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, Salsola Limited, An Bord Bainne (Management) Limited, IDB Treasury Limited, IDB Investment Limited, An Bord Bainne (Sales) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. Post balance sheet events

Except for the following, there have been no significant events since the period end which require disclosure in the financial statements:

– In January 2017, the Group announced that it has signed an agreement to acquire F.J. Need (Foods) Limited, the Cheshire-based cheese ingredients company. F.J. Need supplies a comprehensive range of British and Irish cheese ingredients to the foodservice and food manufacturing sectors. Ornua has been a supplier of high quality Irish cheese to F.J. Need for many years and the acquisition will strengthen this important supply channel. Completion of the acquisition is subject to UK competition approval.

31. Approval of financial statements

The financial statements were approved by the Board of Directors on 15 March 2017.

BOARD OF DIRECTORS & EXECUTIVE

Board of Directors*

Aaron Forde
Chairman

Jim Russell
Vice-Chairman

Jim Bergin
John Comer
Denis Cregan
Michael Hanley
Martin Keane

James Lynch
John Daly
Dan MacSweeney
Dermot O'Leary
Sean O'Leary

Conor Ryan
Pat Sheahan
Jim Woulfe

Executive*

Kevin Lane
Chief Executive

Bernard Condon
CEO Ingredients Europe

John Jordan
CEO Ornua Foods EMEA

Anthony Proctor
Chief Operating Officer

Donal Buggy
Group Finance Director

Majella Darcy
Group Human Resources Director

Gisbert Kügler
Managing Director Ornua Deutschland GmbH

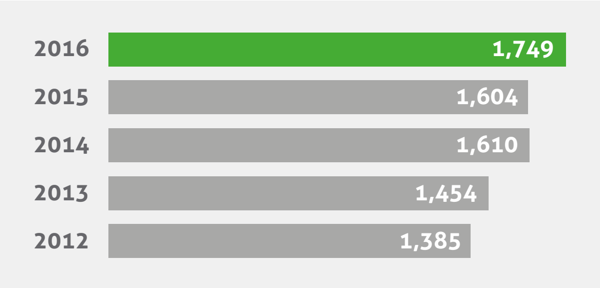
Anne Randles
Secretary & Director of Administration

Joe Collins
Managing Director Ornua Trading & Ingredients

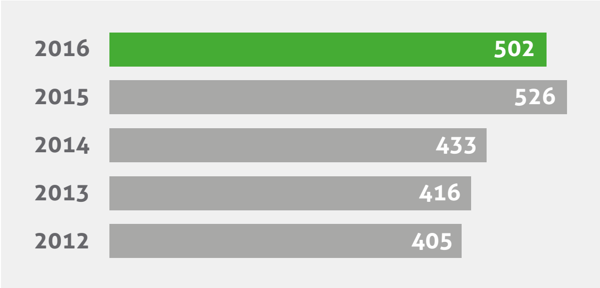
*At date of approval of financial statements

GROUP FIVE YEAR REVIEW

2016 Group Turnover* – €1,749 million



2016 Members' Funds – €502 million



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

	2012 € '000	2013 € '000	2014 € '000	2015 € '000	2016 € '000
a) Historical values					
Turnover	2,028,167	2,124,088	2,339,784	2,543,413	1,749,367
EBITDA	42,130	45,860	49,688	58,814	43,082
Operating profit	20,677	25,836	28,067	34,104	26,611
Profit before taxation and exceptional items	16,348	22,373	23,995	28,265	22,556
Net debt/(cash)	(10,729)	(51,905)	99,328	17,274	(57,155)
Members' funds	404,744	416,006	433,272	525,821	502,439
b) Financial ratios					
EBITDA as % of turnover	2.1%	2.2%	2.1%	2.3%	2.5%
Operating profit as % of turnover	1.0%	1.2%	1.2%	1.3%	1.5%
Leverage (Net debt/(cash)/EBITDA) (times)	(0.3x)	(1.1x)	2.0x	0.3x	(1.3x)
Interest Cover (EBITDA/Interest Payable) (times)	12.8x	15.0x	15.9x	12.6x	11.6x

Figures are reported under previously applied Irish GAAP for the years 2012–2013, and under FRS 102 for the 2014–2016

IRISH PRODUCT UTILISATION OVERVIEW

Total Irish Milk Supply (million litres)

	2016	2015
Jan	148	115
Feb	287	215
Mar	595	454
Apr	761	784
May	930	875
Jun	853	819
Jul	783	769
Aug	699	694
Sep	584	604
Oct	500	536
Nov	337	348
Dec	178	182
Year	**6,655**	**6,395**

Source: CSO

Total Irish Product Output (tonnes)

	2016	2015
Butter	198,700	187,500
Cheese	205,000*	207,100
WMP	43,500	35,400
SMP	117,700	99,100

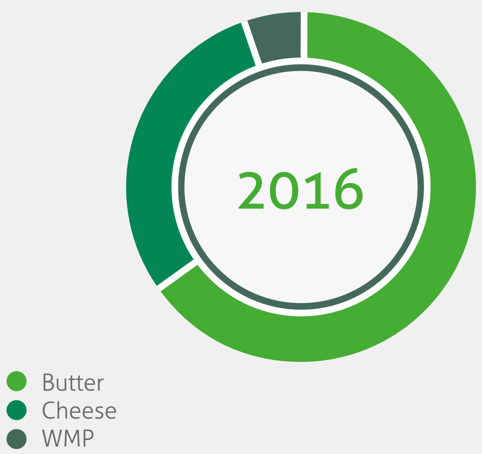
Source: CSO/Ornua

*estimate

Whole Milk Utilisation in Processing (%)

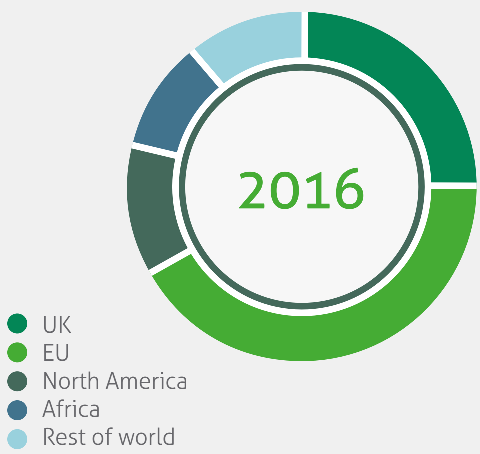
	2016	2015
Butter	65%*	61%
Cheese	30%*	35%
WMP	5%*	4%

*estimate



Ornua Sales from Ireland by Destination (%)

	2016	2015
UK	25%	31%
EU	42%	32%
North America	12%	11%
Africa	10%	15%
Rest of world	11%	11%



Ornua

THE HOME OF IRISH DAIRY

Ornua Co-operative Limited
Grattan House,
Mount Street Lower,
Dublin 2, Ireland

T: +353 1 661 9599

www.ornua.com