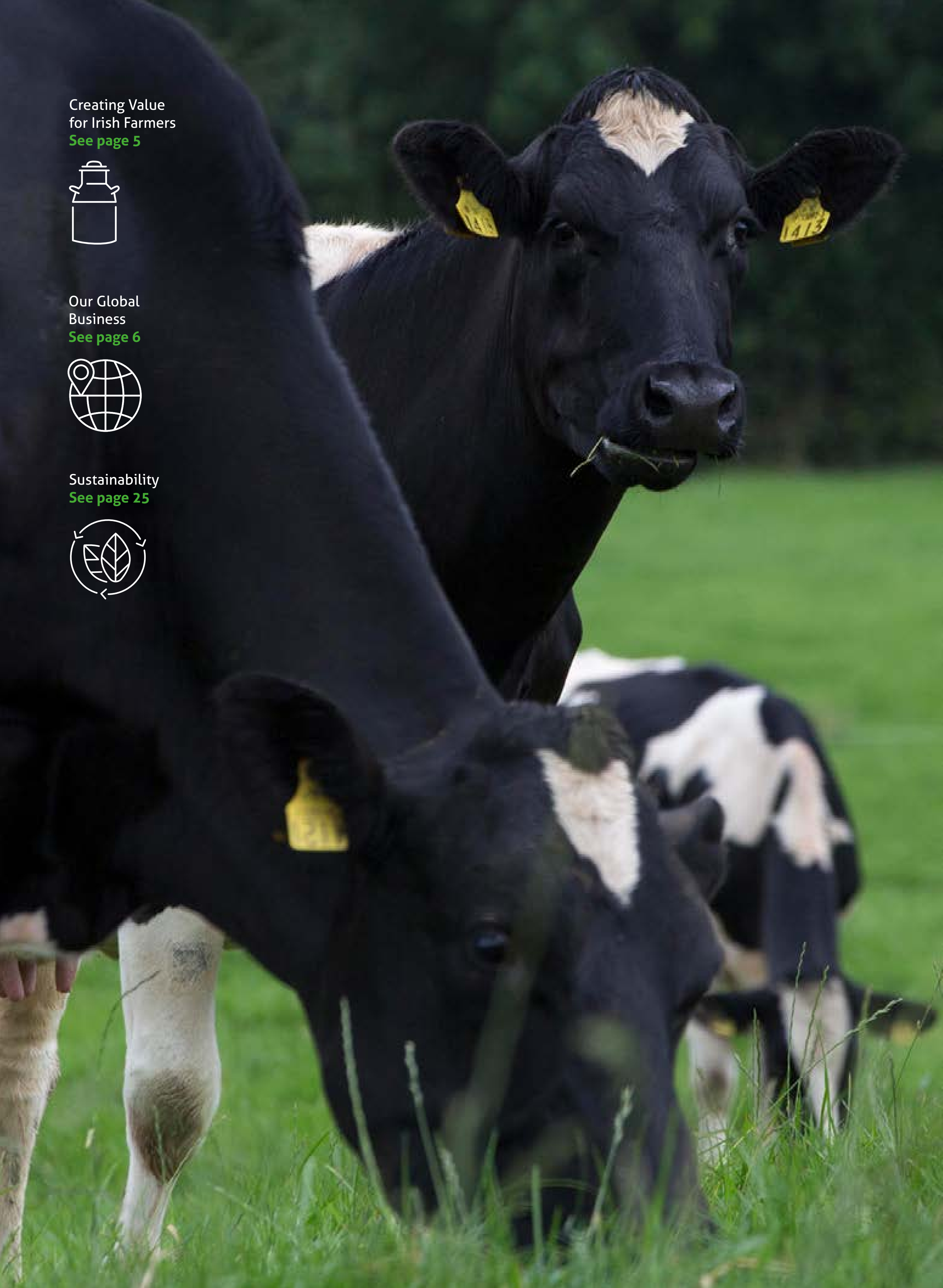
Ornua

THE HOME OF IRISH DAIRY

Annual Report 2018



Creating Value for Irish Farmers
See page 5

Our Global Business
See page 6

Sustainability
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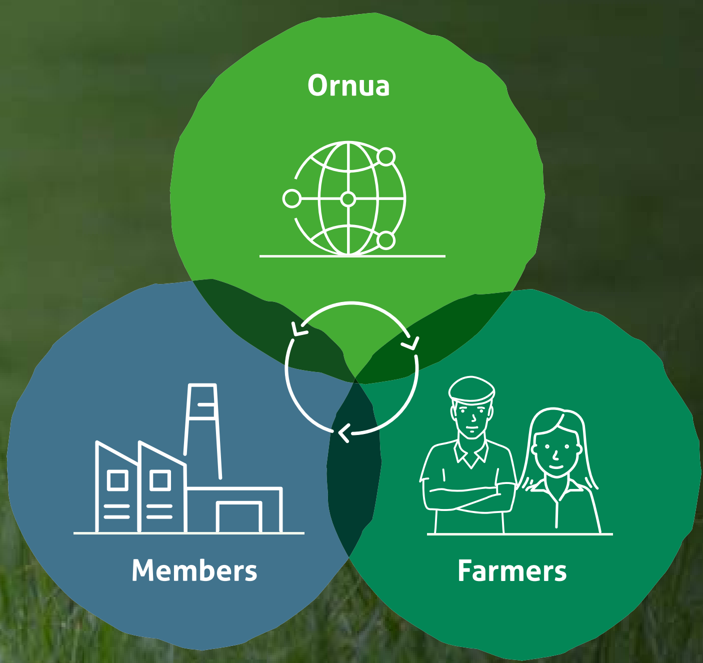
We are collaborators

The co-operative ethos is at the heart of how Ornua does business. As a co-operative, Ornua was founded on the premise of working together with member suppliers and dairy farmers to create shared value for the Irish dairy industry. Support from farmers and member suppliers, along with the world-class milk they produce every day, form the foundations on which Ornua has been able, and will continue, to thrive.

Farmers
Irish dairy farmers' hard work and commitment to producing top quality milk every day is pivotal to the success of the industry.

Members
State-of-the-art, well invested member processor facilities continuously provide Ornua with high-quality dairy products that consumers all over the world can trust and enjoy.

Ornua
Ornua's expertise in building sustainable routes to market helps add value to Irish milk and secure strong returns for members and, in turn, Irish dairy farmers.



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

Ornua is Ireland’s largest exporter of Irish dairy products, exporting to 110 countries worldwide. Headquartered in Dublin, it has annualised sales of over €2 billion and a global team of over 2,200 employees. Ornua operates from 10 business units worldwide, including 14 production facilities, and has sales and marketing teams working in-market across all four corners of the globe.

Read more on page 15

Performance Highlights
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Financial Statements
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Supplementary Information

Performance at a Glance

Financial Highlights

Turnover €m

0.6% ↑
Year-on-Year change

Group EBITDA* €m

12.5% ↑
Year-on-Year change

Operating Profit* €m

14.8% ↑
Year-on-Year change

*Before exceptional items

Net Assets €m

Net Assets
Excluding
Net Debt

How Ornua creates value for Irish dairy farmers

€19m

Ornua declared a total Member Bonus of €19 million, up 27% year-on-year

3.4bn ltrs

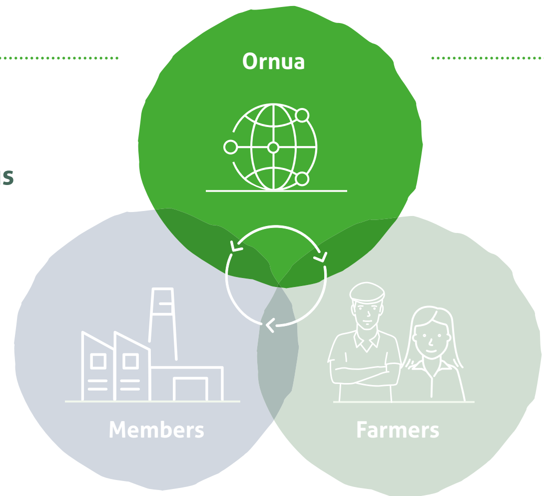
3.4 billion litres of milk equivalent was sold through Ornua's value-added routes to market

c. €18m

Ornua pays a premium to members for Kerrygold product. This premium equated to c.€18 million in 2018

342,400MT

Ornua pays strong product prices across significant volume as evidenced by PPI vs LTO average of 99%



€350m

Ornua provided working capital facilities to members of up to €350 million via "Reverse Invoice Discounting"

570m ltrs

570 million litres of milk equivalent was purchased under fixed price contracts, helping protect members against volatility

Our Global Business

14,000
Dairy Farmers

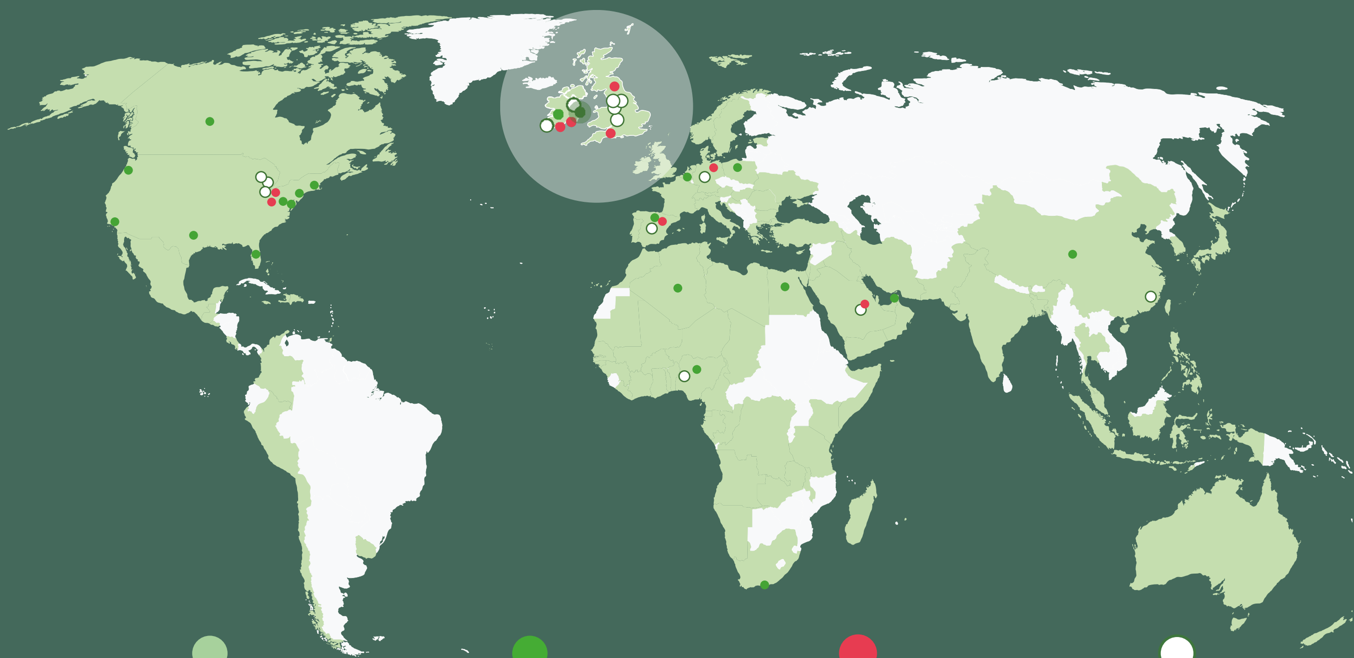
110
Export Markets

2,200
Employees

1
Proud owner of Kerrygold

9
Innovation Centres

14
Production Facilities



Ornua Export Markets

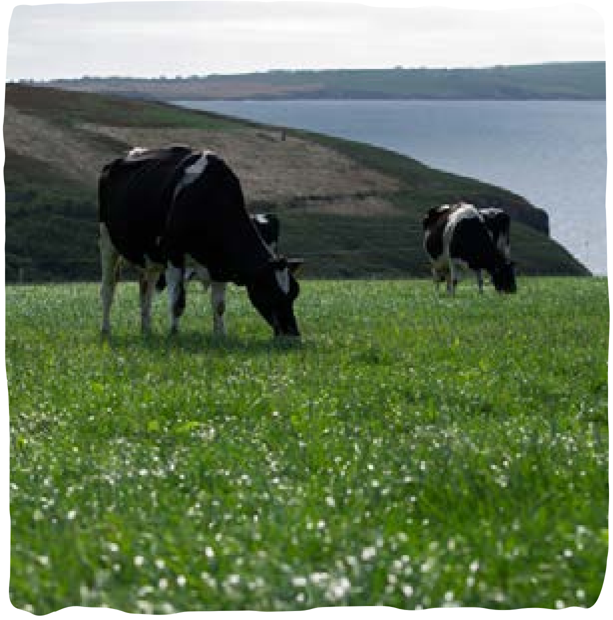
Ornua Sales & Marketing Teams

Ornua Innovation Centres

Ornua Production Facilities


Kerrygold

2018: A Year in Review



Record year for Kerrygold in the US with 25% volume growth, now number 2 butter brand

Creating Value
See page 5

Fastest selling of any food and drink brand in the entire German retail market

€19m **Total Members Bonus, up 27%**

Global Business Reports
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Record year for Ingredients in the US with double-digit volume growth

570m ltrs milk equivalent purchased under fixed price contracts

Increased focus on operational efficiency with €2.8 million savings

Financial Highlights
See page 4

Ornua Ingredients recognised for craft, knowledge and dedication with 30 cheese awards

Innovation
See page 19 & 22

Kerrygold range extended with launch of natural yogurt in Germany and Shreds & Slices cheddar in the US

Chairman's Statement

I am delighted to report another year of strong growth by Ornua, in line with Ornua's ambition to deliver a strong growing global dairy business for our members and stakeholders.

Business Performance

Group Turnover reached €2,082 million while Group EBITDA* and Operating Profit* enjoyed double-digit growth over the same period, enabling the Board to declare a €19 million payout to members; €17 million in cash and €2 million in Redeemable Loan Stock.

During 2018, the Board worked closely with the leadership team to further capitalise on Ornua's established market leading positions in major export markets such as the US and Germany and to accelerate its development in key emerging markets. It oversaw further ongoing investment in the business, strong market returns, as evidenced by the performance of the PPI, and a further increase in member purchases.

Ornua's health and safety performance was on target in 2018 and continues to improve.

Two notable investment decisions by the Board in 2018 were the rebuilding of Ornua Ingredientes España's cheese factory in Avila, Spain, which is on track for completion by mid-2019, and the implementation of a comprehensive business transformation project to develop standardised and more efficient ways of working across the Group. The business transformation project, underpinned by savings and improved returns, will continue to 2022 and is a necessary enabler for further strategic business growth.

The Board has also committed to an enhanced Group-wide focus on health and safety and while further work is required to emulate best in class, Ornua's health and safety performance was on target in 2018 and continues to improve.

Talent development continues to be an ongoing priority for the Board. A number of key appointments were

*Before exceptional items

made during the year, most notably that of John Jordan as the new Chief Executive, following the planned resignation of Kevin Lane in June. John was appointed following a comprehensive selection process led by a Board Sub-committee. He has proven leadership skills and international executive experience and brings to the role a deep knowledge of the organisation and the industry it operates in. As Chief Executive, he will continue to develop and drive Ornua's strategic agenda to deliver sustainable long-term value for Ornua's members' farmer base. We look forward to working with John and his management team as we enter a new era of growth for Ornua.

Markets

Despite a volatile trading environment in 2018, global supply and demand was largely balanced. Cheese and powder markets remained relatively stable, however butterfat prices continued to fluctuate, while SMP prices enjoyed a modest recovery towards the end of the year. This rise in protein prices was sufficient to commence the selling out of the EU's public intervention stocks and a re-balancing of the EU's fat and protein price ratio.

Contrasting weather phenomena during the year saw a slow start to milk output in Ireland in the first quarter of 2018, due to an unseasonably cold spring, followed swiftly by a prolonged summer drought. By the end of the third quarter, milk output was up 1.2%. However, benign climatic conditions enabled milk output to recover strongly to end 4% up on 2017 by year end.

The recovery in milk output helped partially offset a decline in milk price in 2018. However, net margins declined substantially due to a rise in on-farm costs. The outlook for 2019 will continue to be weather and supply-side driven. Weaker EU milk supply in the first quarter of 2019 and improved export demand will help support commodity prices at the start of the year and, in the absence of any unforeseen market shocks, prices should remain steady to mid-year.

Brexit

The challenge of Brexit to Ornua and the Irish dairy industry is undiminished. Ornua is as prepared as it can be, given the ongoing uncertainties surrounding the UK's intention to withdraw from the EU. The company has focused its Brexit preparedness plans on strengthening customer relations, managing currency risk, driving Ornua's UK operational efficiencies, securing supply and evaluating market and product diversification options. Despite the actions taken to safeguard the value of Ornua's business in the UK, even in its least disruptive form, Brexit will be costly. A transitional period is, therefore, essential to give businesses such as Ornua and its customers time to adjust to any new trading arrangement.

Appreciation

The Ornua Board commenced a new four year term in June. I am extremely honoured to have been re-elected by the Board as Chairman and, on behalf of the Board, I congratulate Pat Sheahan on his election to the position of Vice Chairman of Ornua. Pat replaced Jim Russell who was Vice Chairman for the four year term of the out-going Board. I would particularly like to thank Jim for his support to me in my role as Chairman and for his unfailing commitment to Ornua as Vice Chairman of the Board.

I would also like to thank the three members who stepped down from the Board at the end of term in June; John Comer, Dermot O'Leary and Sean O'Leary, for their commitment and engagement in governing Ornua during their tenure on the Board. Three new members were appointed to the Board in June; Peter Fleming, Tom Phelan and Pat McCormack and I wish them well in their new roles as they help steward the business over the next number of years.

In all, a third of the directors were rotated on the Board in 2018 and, in line with our commitment to strengthen the governance of Ornua, an extensive induction programme was developed for all five new Board members to familiarise them with Ornua and its key business units and policies. The Board is focused on protecting the interests of the business on behalf of its members. Proper governance is critically important for any company and is not without its challenges. Towards the end of the year a review commenced on the management of conflicts of interest at Board level. All directors are committed to a process over the coming months and I am confident the outcome will benefit Ornua by further strengthening its governance processes and procedures.

The success of Ornua is dependent on our customers, our stakeholders, the Irish Government, in particular Minister Creed and his officials in the Department of Agriculture, Food and the Marine, and the state bodies and agencies with whom we work. Ultimately though, the success of Ornua is founded on the 14,000 farmers throughout Ireland supplying quality milk to our member co-ops and, to Ornua's 2,200 staff working across the business. Their commitment and unstinting hard work in growing the business on behalf of our shareholders and dairy farmers of Ireland is gratefully acknowledged by myself and by the Board.

Aaron Forde
Chairman

Chief Executive's Report

Ornua moves into 2019 in a strong position and with a clear focus on creating value for Irish dairy farmers.

2018 marks my first CEO statement to you, our shareholders, having taken up the role at mid-year. It is with great pride that I present our 2018 results on behalf of our entire team.

Ornua has delivered a strong performance in 2018, driving further positive uplift on the record growth in 2017. Our co-operative structure and our ethos of collaborating with our members and farmers to create shared value is the true enabler of our success. The world-class milk that Irish dairy farmers produce is matched only by the dedication of our members and the trust that they instil in Ornua to develop value-added routes to market for premium Irish dairy products.

Our team around the world mirrors the dedication so prevalent with Irish dairy farmers and is united in its passion for serving our members and farmers, and in its belief in the strength of Ireland's grass-fed advantage.

Financial Performance

The Group delivered a solid trading performance in 2018. Group Turnover reached €2,082 million with Group EBITDA* of €60.5 million, up 12.5% and Operating Profit* of €40.4 million, up 14.8%. 2018 brought a variety of weather challenges for farmers, from snow to drought which resulted in an unusual milk supply pattern. The late production season resulted in the Group carrying members' stock late into the year, bringing net debt to €110.1 million compared to €0.3 million net cash in the prior year. Ornua's scale and agility enables it to deliver this important support to the industry. 2018's performance was achieved during a period of significant investment in the business including the expansion of production facilities at Ornua Ingredients North America, Ornua Ingredients UK and sustained investment in our brand portfolio.

Over 55 years' experience in operating a strong and agile network of routes to market for premium Irish dairy products is evidenced by the solid performance across both the Ornua Foods and Ornua Ingredients divisions. Both delivered focused growth strategies underpinned by quality, innovation and close customer collaboration.

This momentum was achieved against a challenging global environment characterised by highly volatile butter prices, drought conditions in Europe and economic uncertainty due to Brexit and global trade wars. Our recent investments in building out our trading and risk management capabilities is an important support tool for our customers and our suppliers. This has allowed us to continue to offer fixed milk price schemes, which exceeded 570 million litres milk equivalent, to our members and a variety of purchasing options to our customers.

*Before exceptional items

We are firmly committed to creating value for Irish dairy farming families. We do this through delivering back to our members as evidenced by the PPI vs LTO average of 99%. In 2018, Ornua purchased 342,400 MT of Irish product. It declared a total Members' Bonus of €19 million, up 27% year-on-year.

Brand
2018 was a stand-out year for Kerrygold. A combination of a world-class product with a well invested brand has secured phenomenal growth in our key strategic markets of the US, Germany and the UK. Highlights include accelerated growth in Germany where Kerrygold is the fastest selling of any food and drink brand in the entire German retail market.

The strength and impressive growth of Kerrygold has allowed Ornua to pay a brand premium of c.€18 million to members for Kerrygold product last year alone. Following decades of investment in the Kerrygold brand by our members and Irish farmers, our focus is on protecting this premium positioning and delivering on our strategy to extend Kerrygold from a world-class butter brand into a world-renowned dairy brand.

Ingredients
The success delivered by Ornua Ingredients in 2018 is characterised by a spirit of true collaboration with customers to develop bespoke product solutions for the foodservice and food manufacturing industries. We work closely with our member processors to bring these to fruition. Ornua Ingredients Europe saw its new product pipeline grow significantly during the year with a new line commissioned at Ledbury. In addition, work commenced on the construction of our cheese production facility in Spain which is due to re-open mid-2019. In the US market, our ingredients business experienced a record year with double-digit volume growth.

Sustainable Growth
Our strong heritage linked to dairy farming and the natural attributes that our products are built upon ensure that a commitment to sustainability lies at the heart of our business. The onus is on Ornua and the wider industry to address climate change and to reduce agriculture's impact on the environment. We take this responsibility very seriously and will continue to fund initiatives that help address this such as Origin Green's Sustainable Dairy Assurance Scheme.

People
The success of our co-op is built on the passion and dedication of our people around the world who deliver for our members day in, day out. Every one of our people contributed to the growth we achieved in 2018. Our teams on the ground are passionate about Irish dairy and are working hard to ensure we deliver strong returns to our members and their farmer shareholders.

Our people strategy is aimed at attracting, retaining and developing the best talent into 2019 and beyond. As an international business we are also focused on building a diverse workforce that reflects the markets and cultures of the 110 countries we are present in. Our Global Diversity and Inclusion Network made great progress last year rolling out an employee ambassador programme to bring us closer to our goals.

The Future
2018 was a year of continued momentum and growth for Ireland's dairy sector and our member co-operatives. It is with great passion and personal pride that following a 20-year career at Ornua, I look to the future from the role of CEO with a team of dedicated and passionate people around me to deliver on our growth ambitions.

As part of the development of future growth we have committed to a multi year business transformation project, Evolve. Our aim is to enhance our ways of working, develop best practice and support our people with world-class technology.

Today's political, economic and environmental landscape is fast changing, bringing challenges such as market volatility, Brexit, other international trade barriers and unpredictable weather events. While we are facing uncertainty, Ornua has been operating in global markets for over 55 years so this environment is not new to us. In terms of Brexit, while the UK remains a key strategic market for us, we are flexible enough to reduce our reliance on specific markets which in turn means we are well positioned to deal with any potential negative impact.

Notwithstanding the challenges, I am enthused by our track record of delivering value for Irish milk as we look to the future. We are in a position of strength and will continue to protect our grass-fed advantage on the world stage and partner with our members to deliver a sustainable future for Ireland's vibrant dairy industry.

I would like to sincerely thank my predecessor, Kevin Lane, for the trajectory of growth that he has set us on. I would also like to thank our Chairman, Aaron Forde, our Board of Directors, my Executive team and our 2,200 employees worldwide for their ongoing support. Finally, I want to thank our member co-operatives and the generations of Irish farmers that see the value Ornua has delivered for them, and will continue to deliver, as we grow the business.

John Jordan
Chief Executive

2018 Global Markets

2018 dairy markets were largely influenced by trade wars, Brexit, economic embargos, weather extremes and a highly volatile butter market. Despite this trading environment, European farm-gate milk prices, while falling slightly, remained relatively stable in 2018. Similarly, in Ireland, while the Irish farm-gate milk price fell year-on-year, it remained at an average of 32 cent per litre.

Milk price stability was largely driven by cheese market stability while powder prices recovered as we moved towards year end. In contrast, butter prices were highly volatile, fluctuating between €4,000 and €6,000 per tonne.

Milk supply among the major dairy exporters increased modestly year-on-year but growth eased in the second half of the year. New Zealand deliveries were strong through seasonal peak, but this was counterbalanced by modest US growth and weaker European collections with the summer drought affecting the quality and availability of fodder.

Cheese and butter production increased year-on-year. However, both WMP and SMP output fell with more skim protein being diverted to infant formula and FFP. Indeed, the slowdown in SMP production eventually tightened supply to the point where the EU Commission was able to clear almost all of its intervention stock by January 2019.

While the slowdown in global milk supply supported the market, this was offset by demand-side issues. Global dairy demand saw growth in 2018, albeit at a slower rate compared to previous years, driven largely by more muted consumption in European and US domestic markets, with high and volatile butter pricing in Europe a significant factor.

Growth in global exports was stronger by comparison but was also affected by high and volatile butter pricing and uncertainty created by trade wars and Brexit. Slower economic growth in key buying regions such as the Middle East and Africa also had an impact with lower oil and other commodity prices stifling demand.

Thus, while the growth in global milk supply slowed to about +1% year-on-year in 2018, global demand was also weaker with modest growth of +1%. This explains the relative stability in farm-gate milk prices experienced throughout 2018.

2018 dairy markets were largely influenced by trade wars, Brexit, economic embargos, weather extremes and a highly volatile butter market.

Looking forward to 2019, weaker milk supply through the first quarter, the pick-up in global exports at the tail-end of 2018 and the significant depletion of intervention stocks suggests that overall commodity pricing should remain stable with higher protein prices offsetting lower fat returns at the start of the year.

Global milk supply is forecast to recover in the second quarter but with legacy powder stocks cleared and moderate demand growth expected, commodity pricing and milk returns are likely to remain relatively stable year-on-year.

With this in mind, and outside any significant changes to the trading environment, average farm-gate milk prices are likely to remain in the 30-32 cent per litre range including VAT throughout 2019. However, volatility remains a risk.

Joe Collins
Chief Risk Management Officer

Ornua Global Business Reports

Ornua Foods

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

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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 manufacturing and foodservice customers across the world. Ornua Ingredients is also responsible for managing volatility through de-risking and trading strategies.

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Our Global Business Reports

Ornua Foods

2018 Overview

The success of Ornua's brands is underpinned by Ireland's grass-fed family farming system and the commitment of Irish dairy farmers to produce the best quality milk in the world. The strength of Ornua's brands are a direct result of sustained investment for over 55 years; investment made possible by Irish dairy farmers. The combination of a world-class product and a well invested brand has secured phenomenal growth in many markets around the world.

Germany

Ornua Deutschland had another successful year on the back of record sales volumes in 2017. Despite a market decline in the butter and spreads category, Kerrygold Butter and Extra grew market share to 17% and Kerrygold Cheese volumes grew by 31% year-on-year establishing itself as the clear market leader in the cheddar category.

The brand was further supported by strong TV, print and digital marketing campaigns in 2018 winning a prestigious advertising effectiveness award for its latest Kerrygold brand campaign. Over half of all German households purchase Kerrygold, making it the fastest selling of any food and drink brand in the entire German retail market.

Kerrygold Butter and Extra grew market share to 17%.

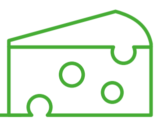
International

Europe was the stand out region for Ornua Foods International, delivering a strong performance in 2018. Overall, however, the international business experienced a mixed year due to challenges in Africa and Asia where the increased cost of goods and in-market pricing impacted on performance.

In Europe, Kerrygold maintained its position as the No. 1 butter brand in Ireland. Kerrygold is now the No. 1 branded foil in Spain and Kerrygold Regato cheese maintained its position as the No. 1 brand in its category in Greece. In Poland, Kerrygold was awarded the prestigious 'Dobra Marka' ('Good Brand') mark for the third consecutive year.

Strong marketing campaigns were developed in 2018 to increase overall awareness of the Kerrygold brand in international markets. In addition, Kerrygold launched a range of pure softer butter in a convenient tub across Iberia and the Mediterranean Islands, where this format is preferred by consumers.

Pilgrims Choice maintained its position as the No. 2 cheddar brand in the UK.



UK

Ornua Foods UK is the largest supplier of Irish and British cheddar to the British retail sector. It packs over 40% of all private label cheddar in the UK. The business had a good year in 2018, focusing on strengthening the sales mix for both brand and own-label cheese.

The UK pre-packed hard cheese market saw branded products in decline as retailers focused on the growth of their own-label market. In 2018, Ornua Foods UK won a significant new own-label cheese packing contract with one of the UK's leading retailers.

Pilgrims Choice maintained its position as the No. 2 cheddar brand in the UK, outperforming the branded category for the past five years in terms of both volume and value. Strong marketing activity throughout the year resulted in Pilgrims Choice growing its repeat purchase rate, a key indicator of consumer preference.

USA

Ornua Foods North America had another successful year in 2018 with 25% volume growth year-on-year. For nine years, this market has been delivering double-digit growth for the Kerrygold brand.

Kerrygold Butter saw phenomenal growth with 30% volume increase year-on-year and is the No. 2 butter brand in the USA. Kerrygold Dubliner maintained its No.1 branded position in the speciality cheddar category where it enjoys a 23% market share.

To support Ornua's ambitious growth plans for Kerrygold in the US, two TV sponsorships were launched in 2018 including *'How to cook well with Rory O'Connell'* and *'Martha Bakes with Martha Stewart'* which aired across the country.

Continued investment in compelling marketing campaigns across TV, print, digital and social, as well as thousands of in-store sampling opportunities and events have resulted in a 52% aided awareness level amongst mainstream US consumers.

Kerrygold Butter is the No.2 butter brand in the USA.

Marketing Campaigns

Music Behind the Recipes

Concept
This campaign saw top US chefs create custom Kerrygold recipes and pair them with inspirational Spotify playlists to accompany both the meal and its preparation. The campaign launched with a video starring contemporary Irish group *I Draw Slow*, who put on a concert for Kerrygold cows on lush pastures on a farm in Co. Wicklow.

Platform
The campaign ran across Kerrygold social channels and was activated through key digital partners, digital channels and premium TV and video platforms. The launch video received over 30 million views across all mediums.

Cheese of your Dreams

Concept
This campaign was based on the long-held rumour that eating cheese makes you dream. The campaign suggests that the flavour of Pilgrims Choice is so powerful it can fill your dreams full of flavour every night. The highly innovative TV advertising featured cutting edge CGI, puppetry, live action and epic dreamscapes to recreate a consumer's experience of dreaming.

Platform
This ran as a TV campaign and was brought to life across in-store activity and social media. The campaign successfully broadened reach, attracting a younger audience of new shoppers and the conversion of more consumers than ever before.

Save the Taste

Concept
Kerrygold Regato 'Save the Taste' TV campaign featured brand ambassador and celebrity chef Dimitris Skarmoutsos. The campaign creative centred around Skarmoutsos using his culinary talents to rescue meal times with Regato cheese, while demonstrating its versatility and taste.

Platform
This multi-channel campaign included activity across TV, social and digital platforms and was well received by Greek consumers. Awareness levels have since reached a record high for the brand, increasing to 97%.

2018 Innovation Highlights

A consumer-led brand strategy is key to brand success and is central to securing value for Irish dairy. Ornua closely monitors consumers evolving attitudes and behaviours to identify growth opportunities. This helps maintain relevance among consumers and protect the premium positioning of Ornua's brands. In 2018, 30 new retail products were launched across the Kerrygold range.

New cheddar formats launched in the US

Kerrygold Shreds & Slices

Kerrygold Shreds & Slices were launched in the US targeting consumers who look for convenience without compromising on taste or quality. This new product launch sees Kerrygold move into the dairy aisle, serving a category with higher footfall while sitting alongside, and competing with, bigger national brands. This opens up exciting new opportunities for Kerrygold and exposes the brand to new consumers.

Natural yogurts launched in Germany

Kerrygold Natural Yogurts

Kerrygold entered the popular natural yogurt subcategory in Germany with the launch of 1.5% and 3.5% fat variant natural yogurts, which adds to the already established fruit yogurt portfolio. These yogurts are positioned under the simply healthy platform which targets both existing and new consumers.

Other product launches included Kerrygold Spreadable into South Africa and Kerrygold Unsalted Lactic Butter into southern Europe.

Ornua Ingredients

2018 Overview

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

The key to the success of Ornua Ingredients is its ability to partner with key customers to develop bespoke dairy ingredient solutions that meet their product development needs.

Europe

Ornua Ingredients Europe is one of the leading providers of cheese and dairy solutions to the food manufacturing and foodservice sectors. In 2018, the business continued to collaborate with customers to develop bespoke, value-added ingredients and focused on improving operational and supply chain efficiencies across its production facilities.

Its new product development pipeline grew significantly throughout the year to meet the evolving needs of its customers. In addition, a new line was commissioned at the Ledbury production facility which enables the business to supply pizza ropes to new and existing customers. Volumes of these value-added ingredients are set to increase in 2019, building even further on Ornua's successful track record of close customer collaboration.

Ornua Ingredients North America experienced a record year in 2018 with double-digit volume growth.

Ireland

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

Ornua Ingredients Ireland had a solid trading performance in 2018 with volumes increasing year-on-year despite a volatile environment. Milk production was restricted over the early-mid season but recovered significantly in the last quarter. Global consumption was relatively flat, driven by a combination of weak economic growth, trade issues and reduced demand in mature markets, all of which had an impact on volumes.

The business expanded their cheese and powder product portfolio throughout the year, positioning the business as a supply partner for key global customers. Its innovation strategy was focused on developing bespoke ingredients for specific customers and developing and applying new technologies for larger, long-term customer partnerships. There was also a focus on supply contingency planning for key customers to mitigate against the risks associated with Brexit.

International

Ornua Ingredients International is supported by production facilities in Saudi Arabia and Nigeria and is responsible for the sale of dairy solutions and white cheese ingredients to food manufacturing and foodservice customers in the Middle East and Africa.

Ornua Ingredients International had a challenging year as a result of macro-economic conditions. Oil prices continue to have a significant impact on market sentiment, particularly in Saudi Arabia and Nigeria. Despite the challenges, the business focused on driving success by meeting the requirements of customers through the development of bespoke products and tailored recipes.

Mersin Cream Cheese was added to the Mersin foodservice product portfolio. This product was developed by innovation teams in Riyadh and Ireland, in close collaboration with ingredient suppliers.

USA

Ornua Ingredients North America produces functional cheese solutions and innovative dry dairy cheese and lipid ingredients for US food manufacturing and foodservice customers.

The business experienced a record year in 2018 with double-digit volume growth year-on-year and strong growth in profitability. This was largely due to increased demand from customers for an innovative clean label range of products and nutritional lipid solutions.

A new shred and dice line, commissioned in 2017, performed as expected and drove additional business growth throughout the year. In 2018, a new 10,000 square foot warehouse was added to the Orangeville facility, giving the business greater control over the supply chain.

Ornua Ingredients North America will focus on building on this momentum in 2019, continuing to drive strong growth and profitability for Ornua.

In 2018, a new 10,000 square foot warehouse was added to the Orangeville facility.

2018 Innovation Highlights

Technology for processed cheese developed

@Home Technology

Ornua Ingredients North America developed an @Home technology that produces processed cheese that has the flavour and functionality typically required by customers while also meeting consumer demands for 'clean label' products. This innovative technology has cemented the reputation of Ornua as the strategic supplier of choice for leading edge innovation in the B2B cheese ingredient space.

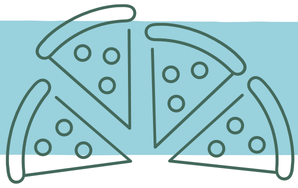
Cream cheese developed for Middle Eastern market

Mersin Cream Cheese

Consumer demand for international foodservice concepts is continuing to grow in the Middle East where there has been an increase in western style restaurants and delivery chains. Given that cream cheese is a large part of the Middle Eastern diet, there was an opportunity to use Ornua's recombined technology, developed in partnership with Teagasc, to develop cream cheese for the food manufacturing and foodservice industry. This new range is bake stable for both pizza and bakery application and has been developed to match the profile of local tastes and functionality. Mersin Cream Cheese is a new addition to the Mersin foodservice product portfolio and provides for opportunities with new customers and markets in the Middle East region.

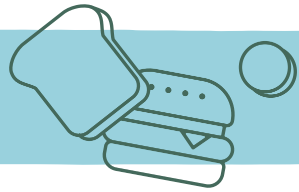
Ornua Ingredients works in close collaboration with customers, innovation teams and ingredient suppliers to create value-added ingredients that meet the changing demands of consumers globally.

Growth of Pizza



Ornua Ingredients has developed TSC Technology; innovative equipment which produces consistent pizza cheese with a rich creamy flavour, every time. The consistent shred gives a plentiful, even melt and the thicker shred stays softer for longer - a sought after benefit for delayed oven to plate applications such as pizza delivery.

Food to Go



Ornua's cheese slicing capability in the UK provides this sector with natural, healthy and protein filled cheese solutions for burgers, sandwiches and snacks delivering convenience, variety and high-quality products to food to go customers.

Award Winning Cheese

As a key ingredient with great flavour, cheddar is central to the ingredients' business of Ornua. It supplies every category of cheddar to a worldwide customer base.

In 2018, Ornua took home an impressive 30 awards from three cheese shows: The International Cheese and Dairy Awards Nantwich, the most prestigious show in Europe for cheddar; Frome Global Cheese Awards, the oldest cheese show in the world; and the World Cheese Awards, a global competition which prides itself on championing traditional and artisanal cheese-makers.

The awards are a significant achievement for Ornua and recognise the Group's craft, knowledge and dedication to cheese making and the strong partnership Ornua forges with its members, suppliers and customers in Ireland and throughout the world.

Our Way Matters

Ornua is committed to playing its role to safeguard a vibrant and sustainable Irish dairy industry for generations to come.

Each year, its sustainability framework 'Our Way Matters' sets out how Ornua and its partners within the dairy industry work to deliver on this commitment. Ornua regularly tracks, monitors, reports, and communicates its progress and efforts in this area.

SUSTAINABLE DEVELOPMENT GOALS

The framework is aligned to the United Nations Sustainable Development Goals (SDGs) which is a global vision to end poverty, protect the planet and ensure prosperity for all by 2030.

Representatives from each of Ornua's production facilities and Group functions including Operations, Sustainability, Group Communications, Procurement, Logistics, HR, Technical, Health & Safety, and Packaging make up Ornua's Our Way Matters working group, ensuring a combined, global effort when it comes to sustainability.

Three pillars of the framework:

Our Way of Farming

Our Way of Farming is the way Ornua supports and promotes Ireland's grass-fed family farming system.

Our Way of Operating

Our Way of Operating is the way Ornua drives sustainable operational excellence across manufacturing plants and throughout its supply chain.

Our Way of Supporting

Our Way of Supporting is the way Ornua collaborates to grow and develop relationships that are beneficial to its many stakeholders; staff, members and farmers, customers, industry and communities, as well as the Ornua Group.

Our Way of Farming 2018 Highlights

9

Nine finalists selected throughout Ireland for the NDC & Kerrygold Quality Milk Awards who represent best-in-class Irish dairy farming.

96%

SDAS Approved

96% of farms are now certified on the Sustainable Dairy Assurance Scheme (SDAS) certification demonstrating the commitment of Irish dairy farmers to improve on-farm sustainability.

Origin Green IRELAND

Ornua funded and supported the Bord Bia Origin Green Dairy Programme, promoting Ireland's sustainable farming practices.

Ornua partnered with Teagasc to support the highest levels of animal welfare. In addition, Ornua celebrated high standards of animal welfare through support of AHI CellCheck Milking for Quality Awards.

Ornua partnered with Agri Aware to increase awareness of the importance of Irish agriculture.

Customer, staff and stakeholder farm visits and workshops took place to showcase Ireland's sustainable grass-fed family farming system.

Our Way of Farming aligns with the following SDGs:

6 CLEAN WATER AND SANITATION

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

11 SUSTAINABLE CITIES AND COMMUNITIES

8 DECENT WORK AND ECONOMIC GROWTH

17 PARTNERSHIPS FOR THE GOALS

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

Our Way of Operating 2018 Highlights

In 2018, Ornua established a groupwide carbon footprint, waste and water baseline and developed an online sustainability tool to effectively measure progress. In addition, a baseline of Ornua's carbon footprint with a strategic transport partner covering land, sea and air was established.

2021 Sustainability Targets:

15%

15% reduction in carbon emissions per MT.

25%

25% reduction in total food waste.

10%

10% reduction in total waste water.

Other Highlights:

Introduced ethical expectations as part of the Supplier Approval Programme for new and existing suppliers within Ornua.

Achieved and maintained AA BRC accreditation at all established operational Ornua sites.

Retained certification of ISO 50001 and ZNU (business sustainability standard) at Ornua Deutschland.

€2.8m

€2.8 million in savings with *The Ornua Way*, Ornua's operational excellence programme.

Our Way of Operating aligns with the following SDGs:

Our Way of Supporting 2018 Highlights

Staff:

Further rollout of Ornua's health and wellness programme, Spring, across the Group. This programme saw staff taking part in many different fun and healthy initiatives.

As part of fostering a diverse and inclusive workforce, the Diversity and Inclusion Working Group helped implement Ornua's diversity strategy.

80

People leadership training was delivered to 80 leaders in Ireland, UK, Saudi Arabia and the US.

17

17 graduates placed in permanent roles following completion of their 18-month development programme.

9

9 new graduates joined Ornua in September 2018.

33

33 middle managers completed the Leadership for Growth programme.

Community:

Ornua supported the Dublin City University "University of Sanctuary" programme which gifts a life-changing scholarship to an asylum seeker in Ireland.

Ornua supported the Cork Butter Museum – promoting the heritage and history of butter making in Ireland.

15,000kg

Ornua helped to reduce food waste and redistribute food to those in need through partnerships with food redistribution organisations with 10,000kg of product donated to Fareshare (UK) and 5,000kg of product donated to Neukirchener Tafel (Germany).

Ornua also supported charity and advocacy organisations including Macra Na Feirme, Nuffield Ireland, Cancer Research UK, Focus Ireland, Advanced Engineering Apprenticeship Programme, Children's Home and Aid, Healthy Lunch Break Initiative, Zac's Miracle and Macmillan Cancer Support.

Our Way of Supporting aligns with the following SDGs:

3 GOOD HEALTH AND WELL-BEING

2 ZERO HUNGER

4 QUALITY EDUCATION

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

5 GENDER EQUALITY

Our Way Matters - a year in review

The McKenna Family, winners of the 2018 NDC & Kerrygold Quality Milk Awards

Origin Green Ambassador Programme, supported by Ornua

Ornua gifts one student a scholarship to complete an undergraduate degree in DCU

Ornua Graduate Programme - class of 2018 & 2019

Kerrygold Park win Food Manufacturing Team of the Year at the Irish Research Manufacturing and Supply Chain Awards

Animal Health Ireland CellCheck Milking for Quality Awards 2018, supported by Ornua

The Healthy Lunch Break Initiative with schools in Germany

Financial Statements

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 2018 which covered routine Board business.

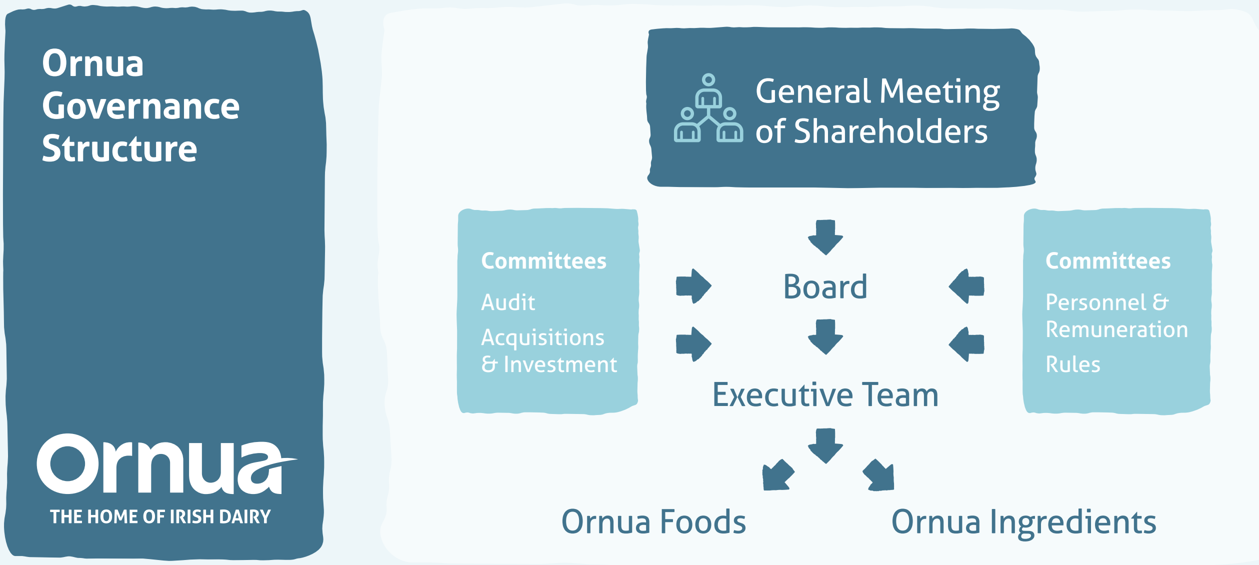
Measures like these ensure that all Board Directors are aware of, and are in a position to, monitor business progress and to discharge effectively their individual Directors' duties under the governing legislation.

Board Performance Evaluation

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

Appointment and Induction

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



Corporate Governance Continued

Group and its activities. Continued development is made available to all Board members.

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. The Board has commenced a review of its procedures to manage conflict of interest at Board level to ensure it is capable of functioning in a manner which enables it to act in the best interests of Ornua.

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

The CEO and Executive Team

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

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

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

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

The Secretary

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

Board Committees

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

Audit Committee

The Audit Committee is responsible for a wide range of matters including the scrutiny of the financial statements, significant financial reporting issues, the effectiveness of internal controls, the Group's risk management systems, corporate business and financial policies, recommendations to the Board as to the appointment of external auditors

Corporate Governance Continued

(including remuneration and other terms of engagement), and the ongoing management of, and the unrestricted access to these relationships, once they are established.

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

Personnel and Remuneration Committee

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

Acquisitions and Investment Committee

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

Rules Committee

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

Internal and External Audit

Internal Audit

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

External Audit

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

Risk Management, Assurance and Internal Control

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

Risk Management Framework

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

Risk Monitoring and Reporting

On a quarterly basis, significant business units are requested to complete a formal risk review and submit their risk register of key business risks for Executive level review. The risk register template ensures consistency of approach in reporting the risks and helps to underpin a common language and approach to the risk management process. The process requires significant business units to

Corporate Governance Continued

rank their top risks by impact and likelihood of occurrence, and to continually assess the appropriateness of the risk mitigation steps in place. The key focus of this review is to ensure the Group's residual risks are within the scope of what the Board is willing to accept in order to achieve its strategic objectives. During the annual cycle, these risks are presented to the Audit Committee as a consolidated register of significant Group risks, along with management's key mitigations. This is in addition to ongoing business risk updates provided to the Audit Committee during the year.

Principal Risks and Uncertainties

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

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 could have a damaging displacement effect and undermine trade flows and business relations. The Group seeks to mitigate these developments through active monitoring and analysis, market and product diversification and customer engagement and relationship building.

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

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

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

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

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

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

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

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

Corporate Governance Continued

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 period ended 29 December 2018

The Directors submit their report together with the audited financial statements for the period ended 29 December 2018.

Directors' Responsibilities Statement

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

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standard;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper books of account that disclose, with reasonable accuracy at any time, the financial position of the Society and enable them to ensure that the financial statements have been properly prepared in accordance with the requirements of the Industrial and Provident Societies Act, 1893 to 2014. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Books of Account

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

Going Concern

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

Principal Activities

Ornua is a dairy co-operative which markets and sells dairy products on behalf of its members; Ireland's dairy processors and, in turn, the Irish dairy farmer. Ornua is Ireland's largest exporter of Irish dairy products, exporting to 110 countries worldwide. Headquartered in Dublin, it has annualised sales of over €2 billion and has a strong global team of over 2,200 employees. It operates from 10 business units worldwide, including 14 production facilities, and has sales and marketing teams working in-market across all four corners of the globe.

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

2018 Global Markets

2018 dairy markets were largely influenced by trade wars, Brexit, economic embargos, weather extremes and a highly volatile butter market. Despite this trading environment, European farm-gate milk prices, while falling slightly, remained relatively stable in 2018. Similarly, in Ireland, while the Irish farm-gate milk price fell year-on-year, it remained at an average of 32 cent per litre.

Milk price stability was largely driven by cheese market stability while powder prices recovered towards year end. In contrast, butter prices were highly volatile, fluctuating between €4,000 and €6,000 per tonne.

Milk supply among the major dairy exporters increased modestly year-on-year but growth eased in the second half of the year. New Zealand deliveries were strong through seasonal peak, but this was counterbalanced by modest US growth and weaker European collections with the summer drought affecting the quality and availability of fodder.

Directors' Report period ended 29 December 2018 Continued

While the slowdown in global milk supply supported the market, this was offset by demand-side issues. Global dairy demand saw growth in 2018, albeit at a slower rate compared to previous years, driven largely by more muted consumption in European and US domestic markets, with high and volatile butter pricing in Europe a significant factor there.

Thus, while the growth in milk supply slowed to about +1% year-on-year in 2018, global demand was also weaker with modest growth of +1%. This explains the relative stability in farm-gate milk prices experienced through 2018.

Financial Performance

The Group delivered a solid trading performance in 2018. Group Turnover reached €2,082 million with Group EBITDA* of €60.5 million, up 12.5% and Operating Profit* of €40.4 million, up 14.8%. The total Members Bonus for 2018 was €19 million, up 27% year-on-year.

2018 brought a variety of weather challenges for Irish farmers, from snow to drought which resulted in an unusual milk supply pattern. The late production season resulted in the Group carrying members' stock late into the year, bringing net debt to €110.1 million compared to €0.3 million net cash in the prior year.

Brand Performance

In 2018, Ornua continued to grow the strength of its brand portfolio in key markets.

The success of Kerrygold has allowed Ornua to pay a premium of c.€18 million to members for Kerrygold product in 2018. Following years of investment in Kerrygold by members and farmers, the Group's focus is on protecting this premium positioning and delivering on its strategy to diversify Kerrygold from a world-class butter brand into a world-renowned dairy brand. 2018 saw new product launches in-market including Kerrygold Natural Yogurts in Germany, Kerrygold Shreds and Slices cheddar range in the US and a range of pure softer butter in Iberia and the Mediterranean Islands.

Ingredients' Performance

The success delivered by Ornua Ingredients in 2018 is characterised by a close collaboration with customers to develop bespoke product solutions for the foodservice and food manufacturing industries. Ornua Ingredients Europe saw its new product pipeline grow significantly during the year with a new line commissioned at Ledbury. Work commenced on the construction of our cheese production facility in Spain which is due to re-open in mid-2019. Ornua Ingredients North America experienced a record year with double-digit volume growth and expanded their warehousing facility. In the Middle East, Mersin Cream Cheese was added to the Mersin foodservice service portfolio.

Operational Highlights

The Group continues to deliver strong results across the business. Key operational highlights for 2018 include;

- Strong trading performance with Group EBITDA* of €60.5 million, up 12.5% and Operating Profit* of €40.4 million, up 14.8%.
- Record Irish product purchases of 342,400 MT.
- 570 million litres of milk equivalent purchased under fixed price contracts.
- Total Members' Bonus of €19 million, up 27% year-on-year.
- Premium of c. €18 million paid for Kerrygold product.
- Increased investment in brand development with new product launches including;
  - Kerrygold Shreds & Slices range in the US
  - Kerrygold Natural Yogurts in Germany
- Increased focus on operational efficiency with €2.8 million savings across seven Ornua sites.
- Record year for Ornua Ingredients North America with double-digit volume growth.
- New line commissioned in Ornua Ingredients Europe production facility.
- Continued investment in staff development programmes including People Leadership, Leadership for Growth, Mentoring and Coaching Development, Succession Planning and Graduate Programmes.

Health & Safety

Ornua is committed to preventing harm and providing a safe and healthy working environment for its people and partners. In 2018, Ornua experienced less accidents and days lost from work compared to 2017 as the business continued to implement programmes to further develop a culture of safety and health. The Group Executive team is committed to continuous improvement in this regard and recognises that this can only be achieved by active engagement and support of colleagues and partners.

The Future

Today's political, economic and environmental landscape is fast changing, bringing challenges such as market volatility, Brexit, other international trade barriers and unpredictable weather events. While the Group faces uncertainty, it has been operating in global markets for over 55 years and is flexible enough to reduce reliance on specific markets which helps mitigate against any potential negative impact.

*Before exceptional items

Directors' Report period ended 29 December 2018 Continued

Subsidiary Undertakings
A list of the significant trading subsidiary companies is included in Note 28 to the financial statements.

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

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

Political Donations
The Group did not make any political donations during the year (2017: €nil).

Corporate Governance
The Corporate Governance section on pages 31 to 35 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. The Board has commenced a review of its procedures to manage conflicts of interest at Board level to ensure it is capable of functioning in a manner which enables it to act in the best interests of Ornua.

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

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

Directors' Report period ended 29 December 2018 **Continued**

Board members to End December 2018

Aaron Forde (i) (ii) (iii) (iv)	Chairman	Aurivo Co-operative Society Limited
Pat Sheahan (i) (ii) (iii) (iv)	Vice Chairman	North Cork Co-operative Creameries Limited
Jim Bergin (iii) (iv)		Glanbia Ireland Limited
Denis Cregan (ii) (iv)		Independent Non-Executive Director
John Daly (iii)		Tipperary Co-operative Creamery Limited
Peter Fleming (ii) (iii)		Carbery Food Ingredients Limited
Michael Hanley (ii)		Lakelands Dairies Co-operative Limited
Jason Hawkins (i)	Appointed Chair of Audit Sub-Committee February 2019	Carbery Food Ingredients Limited
Martin Keane (i)	Resigned as Chair of Audit Sub-Committee January 2019	Glanbia Co-operative Society Limited
Pat McCormack (iv)		Irish Creamery Milk Suppliers Association
John O'Gorman (ii)		Dairygold Co-operative Society Limited
Tom Phelan (i)		Irish Farmers Association
Conor Ryan (i)		Arrabawn Co-operative Society Limited
Jim Russell (iii) (iv)		Irish Co-operative Society Limited
Jim Woulfe (iii) (iv)	Chairman of Personnel & Remuneration Committee	Dairygold Co-operative Society Limited

Resigned Board members

Board Member	Resignation Date	
John Comer	June 2018	Irish Creamery Milk Suppliers Association
James Lynch	February 2018	Dairygold Co-operative Society Limited
Dermot O'Leary	June 2018	Carbery Food Ingredients Limited
Sean O'Leary	June 2018	Irish Farmers Association

Appointed Board members

Board Member	Appointment Date
Peter Fleming	June 2018
Jason Hawkins	January 2018
Pat McCormack	June 2018
John O'Gorman	February 2018
Tom Phelan	June 2018

Committee members as at 29 December 2018

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

On behalf of the Board of Directors

Aaron Forde Chairman	Jason Hawkins Director

13 March 2019

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the Group's assets, liabilities and financial position as at 29 December 2018 and of its profit and cash flows for the period then ended; and
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Irish law).

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

- the Group Balance Sheet as at 29 December 2018;
- the Group Income Statement for the period then ended;
- the Group Statement of Comprehensive Income for the period then ended;
- the Group Statement of Changes in Equity for the period then ended;
- the Group Cash Flow Statement for the period then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Industrial and Provident Societies Act, 1893 reporting

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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
13 March 2019

Group Income Statement for the period ended 29 December 2018

	Notes	2018 €'000	2017 €'000
Turnover		**2,082,059**	2,069,219
Cost of sales		**(1,824,823)**	(1,816,837)
Gross profit		**257,236**	252,382
Selling and distribution expenses		**(143,827)**	(154,459)
Administration expenses - excluding amortisation		**(65,961)**	(56,050)
Administration expenses - amortisation		**(7,029)**	(6,628)
Operating profit before exceptional items		**40,419**	35,245
Exceptional items	4	**(2,728)**	(2,081)
Operating profit after exceptional items		**37,691**	33,164
Share of results of associates & joint ventures	10	**(500)**	(62)
Interest payable (net)	5	**(3,654)**	(3,058)
Net interest expense on defined benefit pension schemes	24	**(910)**	(955)
Profit on ordinary activities before taxation	2	**32,627**	29,089
Tax on profit on ordinary activities	6	**(7,544)**	(10,673)
Profit for the financial period		**25,083**	18,416
Profit attributable to:			
Owners of the parent		**25,865**	18,759
Non-controlling interest		**(782)**	(343)
		25,083	18,416

The notes on pages 47 to 78 form part of these financial statements.

On behalf of the Board of Directors

Aaron Forde
Chairman
13 March 2019

Jason Hawkins
Director

Group Statement of Comprehensive Income for the period ended 29 December 2018

	2018 €'000	2017 €'000
Profit for the period	**25,083**	18,416
Other Comprehensive (Expense)/Income		
- Remeasurement of net defined benefit obligation	**(2,394)**	4,183
- Cash flow hedges		
- Change in value of hedging instrument	**(3,748)**	4,416
- Reclassification to profit and loss	**(4,416)**	5,258
- Currency translation differences	**3,254**	(24,124)
- Total tax on components of other comprehensive (expense)/income	**1,392**	(2,134)
Other comprehensive expense for the period, net of tax	**(5,912)**	(12,401)
Total comprehensive income for the period	**19,171**	6,015
Total comprehensive income/(expense) attributable to:		
Owners of the parent	**20,001**	6,407
Non-controlling interest	**(830)**	(392)
	19,171	6,015

On behalf of the Board of Directors

Aaron Forde
Chairman
13 March 2019

Jason Hawkins
Director

Group Balance Sheet as at 29 December 2018

	Notes	2018 € '000	2017 € '000
Fixed assets			
Intangible assets	8	**55,446**	57,393
Tangible assets	9	**202,770**	183,082
Associates & joint ventures	10	**71**	1,808
Loans to associates & joint ventures	10	**10,898**	12,139
Other investments	10	**845**	295
		270,030	254,717
Current assets			
Inventories	11	**740,265**	549,567
Debtors	12	**303,405**	338,471
Restricted cash	22	**1,950**	3,968
Cash and bank balances	21	**88,986**	59,282
		1,134,606	951,288
Creditors: amounts falling due within one year	13	**(624,195)**	(577,693)
Net current assets		**510,411**	373,595
Total assets less current liabilities		**780,441**	628,312
Creditors: amounts falling due after one year	16	**(208,908)**	(68,054)
Post employment benefits	24	**(41,572)**	(40,860)
Provision for liabilities	18	**(9,668)**	(13,821)
Net assets		**520,293**	505,577
Capital and reserves			
Called up share capital	19	**19,607**	19,607
Revenue reserves	19	**490,646**	465,647
Cash flow hedging reserve	19	**(3,268)**	3,730
Share premium	19	**32**	32
Capital levy account	19	**256**	256
Members' equity interest (before annual bonus fund and redeemable loan stock)		**507,273**	489,272
Annual bonus fund	7	**2,000**	–
Redeemable loan stock	7	**12,087**	16,542
Members' funds		**521,360**	505,814
Non-controlling interest		**(1,067)**	(237)
Total equity		**520,293**	505,577

The notes on pages 47 to 78 form part of these financial statements.

On behalf of the Board of Directors

Aaron Forde
Chairman
13 March 2019

Jason Hawkins
Director

Group Statement of Changes In Equity for the period ended 29 December 2018

	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 31 December 2016	19,607	32	(4,372)	256	466,414	–	20,502	502,439	1,083	503,522
Profit for the period	–	–	–	–	18,759	–	–	18,759	(343)	18,416
Other comprehensive income/(expense) for the period:										
Remeasurement of net defined benefit obligation	–	–	–	–	4,183	–	–	4,183	–	4,183
Cash flow hedges										
- Change in value of hedging instruments	–	–	4,416	–	–	–	–	4,416	–	4,416
- Reclassification to profit and loss	–	–	5,258	–	–	–	–	5,258	–	5,258
Currency translation differences	–	–	–	–	(24,075)	–	–	(24,075)	(49)	(24,124)
Total tax on component of other comprehensive income	–	–	(1,572)	–	(562)	–	–	(2,134)	–	(2,134)
Transfer on exercise of call option	–	–	–	–	928	–	–	928	(928)	–
Redemption of loan stock (note 7)	–	–	–	–	–	–	(3,960)	(3,960)	–	(3,960)
At 30 December 2017	**19,607**	**32**	**3,730**	**256**	**465,647**	**–**	**16,542**	**505,814**	**(237)**	**505,577**
Profit for the period	–	–	–	–	25,865	–	–	25,865	(782)	25,083
Other comprehensive income/(expense) for the period:										
Remeasurement of net defined benefit obligation	–	–	–	–	(2,394)	–	–	(2,394)	–	(2,394)
Cash flow hedges										
- Change in value of hedging instruments	–	–	(3,748)	–	–	–	–	(3,748)	–	(3,748)
- Reclassification to profit and loss	–	–	(4,416)	–	–	–	–	(4,416)	–	(4,416)
Currency translation differences	–	–	–	–	3,302	–	–	3,302	(48)	3,254
Total tax on component of other comprehensive income	–	–	1,166	–	226	–	–	1,392	–	1,392
Transfer to annual bonus fund	–	–	–	–	(2,000)	2,000	–	–	–	–
Redemption of loan stock (note 7)	–	–	–	–	–	–	(4,455)	(4,455)	–	(4,455)
At 29 December 2018	**19,607**	**32**	**(3,268)**	**256**	**490,646**	**2,000**	**12,087**	**521,360**	**(1,067)**	**520,293**

A description of each reserve account is included in note 19.

On behalf of the Board of Directors

Aaron Forde
Chairman
13 March 2019

Jason Hawkins
Director

Group Cash Flow Statement for the period ended 29 December 2018

	Notes	2018 €'000	2017 €'000
Cash (used in)/generated from operations (after cash exceptional items)	20	**(52,090)**	7,120
Income tax paid		**(10,240)**	(7,652)
Net cash outflow from operating activities		**(62,330)**	(532)
Cash flows from investing activities			
Purchases of tangible assets	9	**(34,153)**	(26,327)
Purchases of intangible assets	8	**(3,410)**	(412)
Proceeds from sale of tangible assets		**201**	482
Purchase of subsidiary undertakings (net of cash acquired)		**–**	(19,778)
Investments in and loans to joint venture		**–**	(833)
Purchase of other investments		**(550)**	(247)
Interest received		**196**	180
Decrease /(increase) in restricted cash	22	**2,018**	(226)
Net cash used in investing activities		**(35,698)**	(47,161)
Cash flows from financing activities			
Interest paid		**(4,459)**	(4,629)
Proceeds from borrowings		**140,000**	60,000
Payments in respect of loan stock redeemed		**(4,652)**	(4,803)
Net cash generated from financing activities		**130,889**	50,568
Net increase in cash and cash equivalents and bank overdrafts in the period		**32,861**	**2,875**
Balance at beginning of period		**59,282**	57,155
Foreign exchange losses		**(3,157)**	(748)
Cash and cash equivalents at the end of period	21	**88,986**	59,282

On behalf of the Board of Directors

Aaron Forde
Chairman
13 March 2019

Jason Hawkins
Director

Notes to the Financial Statements

1. Statement of accounting policies

a) Statement of Compliance

These financial statements have been prepared in accordance with applicable accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'). The financial statements have been prepared on the going concern basis under the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below and the measurement of the net defined benefit pension liabilities at the fair value of the plan assets less the present value of the defined benefit obligation. The 2018 financial statements are for a 52 week period (2017: 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 31 December 2017 to 29 December 2018 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 Group. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised directly in equity. Gains or losses on disposals to non-controlling interests, without a loss of control, are also recognised directly in equity.

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

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

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

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

d) Revenue recognition

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

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

e) Exceptional items

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

f) Inventory

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

g) Private storage aid income

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

h) Tangible assets

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

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

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

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

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

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

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

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

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

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

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

Goodwill is amortised over a period greater than five years because it arises on the acquisition of profitable businesses which are expected to remain profitable over the long term.

The Group shall recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the Group shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date to reflect new information obtained.

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

Software 3-5 years.

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

Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:

- The technical feasibility of completing the software so that it will be available for use or sale.
- The intention to complete the software and use or sell it.
- The ability to use the software or to sell it.
- How the software will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the software.
- The ability to measure reliably the expenditure attributable to the software during its development.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

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

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

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

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

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

(iii) Termination benefits
Termination benefits are payable when employment is terminated before normal retirement date or whenever an employee is expected to accept voluntary redundancy.

The Group recognises these costs when it is demonstrably committed to terminating the employment of current employees in line with a formal plan, or providing termination benefits as a result of the expected take up of an offer for voluntary redundancy.

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

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

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

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

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

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

n) Employee benefits (continued)

(v) Defined benefit plans (continued)

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 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.

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.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

p) Provisions and contingent liabilities (continued)

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.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

r) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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

€ 1 =	Average Rates 2018	Average Rates 2017	Period end Rates 2018	Period end Rates 2017
US$	**1.1811**	1.1298	**1.1455**	1.1979
GBP£	**0.8846**	0.8763	**0.9021**	0.8877
SAR	**4.4267**	4.2340	**4.2956**	4.4898
CNY	**7.8022**	7.6280	**7.8779**	7.7978

(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.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

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

(ii) Financial liabilities

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

(iii) Derivatives

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

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

v) Financial instruments (continued)

(iv) Hedging arrangements

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

(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.

Notes to the Financial Statements (continued)

1. Statement of accounting policies (continued)

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, insurance claims, inventory impairments and provisions for onerous contracts.

Deferred income tax

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

Retirement benefit obligations

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

Insurance claims

When an insurance claim arises, management judgement is required in determining the amount to be recognised as recoverable. In calculating the amount to be recognised as recoverable management considers all available information.

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):

	2018	2017
	€'000	€'000
Depreciation (note 9)	**13,096**	11,957
Amortisation of intangible assets (note 8)	**7,029**	6,628
Operating lease expense	**2,593**	2,554
Auditors' remuneration - audit fee	**643**	625
Reclassification of prior period fair value (gains)/losses on derivatives	**(4,416)**	5,258
Impairment of trade receivables - credit	**(4)**	(237)
Exchange differences - charge	**2,845**	802

Notes to the Financial Statements (continued)

3. Employees and remuneration

	2018 No.	2017 No.
The average number of persons employed by the Group is analysed into the following categories:		
Production	**1,327**	1,331
Selling and distribution	**414**	410
Administration	**438**	427
	2,179	2,168

The staff costs are comprised of:

	2018 €'000	2017 €'000
Wages and salaries* (including termination benefits of €0.4m (2017: €2.1m))	**95,467**	88,294
Social welfare costs	**7,702**	7,903
Pension costs	**3,815**	4,129
Curtailment gain/past service cost (net)	**(1,920)**	–
Staff costs included in operating profit	**105,064**	100,326
Pension - other finance costs (net)	**910**	955
Total charged to Income Statement	**105,974**	101,281
Actuarial loss/(gain) on defined benefit pension schemes (net of deferred taxation)- charged to comprehensive income	**2,168**	(3,621)
Total aggregate payroll costs	**108,142**	97,660

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

Notes to the Financial Statements (continued)

3. Employees and remuneration (continued)

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

	2018 €'000	2017 €'000
Income Statement		
Cost of sales	**48,755**	43,564
Selling and distribution expenses	**22,074**	23,155
Administration expenses	**35,799**	31,461
Exceptional items	**(1,564)**	2,146
Included in operating profit	**105,064**	100,326
Other finance costs (net)	**910**	955
Total charged to Income Statement	**105,974**	101,281
Statement of Comprehensive Income		
Actuarial loss/(gain) on defined benefit pension schemes (net of deferred tax)	**2,168**	(3,621)
Total aggregate payroll costs	**108,142**	97,660

4. Exceptional items

	2018 €'000	2017 €'000
Restructuring costs (i)	**(742)**	(3,663)
Past service cost (ii)	**(658)**	–
Curtailment gain (iii)	**2,578**	–
Impairment of investments in and loans to associates & joint ventures (iv)	**(3,906)**	–
Net cost in relation to fire at Spanish plant (v)	**–**	–
Gain on exercise of call option (vi)	**–**	1,582
	(2,728)	(2,081)

2018

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

(ii) Past service cost that arose in the UK Defined Benefit Plan as a result of a High Court judgement in relation to Guaranteed Minimum Pensions.

(iii) Curtailment gain that arose as a result of the Irish Defined Benefit Plan's closure to future accrual in 2018.

Notes to the Financial Statements (continued)

4. Exceptional items (continued)

(iv) The Group carried out an impairment review of certain components of its investments in and loans to associates & joint ventures by comparing the assets' recoverable amount to their carrying value and as a result an impairment of €3.9m was recognised in its investment in Nextwave Distribution Holdings LLC ('Nextwave') (note 10). This impairment was a result of the competitive nature of the market in which the business operates and this resulted in the recoverable amount of the Group's investment in Nextwave being less than its carrying amount. The Group has written down the total of its investment in Nextwave to its share of Nextwave's net assets (excluding goodwill).

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

The fire destroyed plant and equipment with a book value of €3.8m, stock with a book value of €3.5m and the Group also incurred business interuption costs as a result of the fire.

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

2017

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

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

The fire destroyed plant and equipment with a book value of €3.8m, stock with a book value of €3.5m and the Group also incurred business interuption costs as a result of the fire.

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

(vi) During the period the Group exercised its option to acquire the 25% of Shanghai En Bo Lu Food Co, Limited China (Ambrosia Dairy) that it did not already own.

The amount paid on exercise of the option was €2.0m and the excess of the liability previously recognised for the option over the exercise price is recognised as a gain in the period.

Notes to the Financial Statements (continued)

5. Interest payable (net)

	2018 €'000	2017 €'000
Interest payable on bank loans and overdrafts :		
Repayable within 5 years, other than by instalments	**4,819**	4,176
Interest receivable	**(1,165)**	(1,118)
	3,654	3,058

6. Tax on profit on ordinary activities

	2018 €'000	2017 €'000
Analysis of taxation charge in the period		
Current tax		
Irish corporation tax on the profit for the period	**2**	–
	2	–
Foreign tax		
Foreign corporation tax on profit for the period	**9,899**	9,375
Adjustments in respect of previous periods	**(3,802)**	55
	6,097	9,430
Total current tax	**6,099**	9,430
Deferred tax		
Origination and reversal of timing differences	**1,499**	1,411
Impact of change in tax rates	**(54)**	(168)
Tax on profit on ordinary activities	**7,544**	10,673
Tax (income)/expense included in Other Comprehensive Income	**(1,392)**	2,134

Notes to the Financial Statements (continued)

6. Tax on profit on ordinary activities (continued)

Reconciliation of effective tax rate

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

	2018 €'000	2017 €'000
Profit on ordinary activities before taxation	**32,627**	29,089
Profit on ordinary activities at the standard rate of corporation tax in Ireland of 12.5%	**4,078**	3,636
Effects of:		
Foreign rates of tax different from Irish rates	**6,003**	7,150
Non utilisation of tax losses (net)	**1,573**	1,252
Expenses/income not deductible/taxable (net)	**269**	95
Movement in other differences	**(577)**	(1,515)
Adjustments in respect of prior periods	**(3,802)**	55
Total tax	**7,544**	10,673

The only significant change during 2018 in the tax rates applying to the Group's subsidaries was the change in US federal tax rate from 35% to 21% on 1 January 2018.

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 amount allocated to redeemable loan stock (via a transfer to the annual bonus fund) in 2018 is €2.0m (2017 : €Nil).

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

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

During the period, the Board decided to redeem loan stock to the value of €4.5m (2017 : €4.0m) issued in respect of the 2013 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 €4.7m in 2018 (2017 : €4.8m).

Notes to the Financial Statements (continued)

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

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

	2018 €'000	2017 €'000
At beginning of period	**16,542**	20,502
Redemption of loan stock	**(4,455)**	(3,960)
At end of period	**12,087**	16,542

(b) Total bonuses payable

	2018 €'000	2017 €'000
Annual cash bonus (charged to operating profit)	**17,000**	15,000
Redeemable loan stock (transfer to annual bonus fund)	**2,000**	–
	19,000	15,000

8. Intangible assets

	Goodwill 2018 €'000	Other Intangibles 2018 €'000	Computer Software 2018 €'000	Total 2018 €'000
Cost				
At beginning of period	78,470	28,707	4,777	111,954
Additions in the period	–	–	3,410	3,410
Transfer from tangible assets (note 9)	–	–	1,018	1,018
Translation adjustment	1,477	(52)	252	1,677
	79,947	28,655	9,457	118,059
Amortisation				
At beginning of period	41,990	10,805	1,766	54,561
Amortised during the period	3,751	2,350	928	7,029
Transfer from tangible assets (note 9)	–	–	174	174
Translation adjustment	671	(75)	253	849
	46,412	13,080	3,121	62,613
Net book amount				
At end of period	**33,535**	**15,575**	**6,336**	**55,446**
At beginning of period	**36,480**	**17,902**	**3,011**	**57,393**

The Group expensed €4.7m in research and development expenditure in the period (2017: €4.7m). Amortisation is classified within administration expenses in the Income Statement. The remaining amortisation period of the goodwill ranges from 7-13 years. The remaining amortisation period of other intangibles ranges from 5-19 years.

Notes to the Financial Statements (continued)

9. Tangible assets

	Land and Buildings				
	Freehold Land 2018 €'000	Freehold Buildings 2018 €'000	Leasehold Buildings 2018 €'000	Plant Equipment and Vehicles 2018 €'000	Total 2018 €'000
Cost					
At beginning of period	6,870	117,220	166	164,284	288,540
Reclassification	(1,674)	1,711	(37)	–	–
Additions in the period	2,500	1,307	–	30,346	34,153
Disposals in the period	–	–	–	(7,450)	(7,450)
Transfer to intangibles (note 8)	–	–	–	(1,018)	(1,018)
Translation adjustment	(55)	151	(1)	(567)	(472)
	7,641	120,389	128	185,595	313,753
Depreciation					
At beginning of period	–	26,705	130	78,623	105,458
Charge for the period	–	2,904	1	10,191	13,096
Disposals in the period	–	–	–	(6,938)	(6,938)
Transfer to intangibles (note 8)	–	–	–	(174)	(174)
Translation adjustment	–	(18)	(7)	(434)	(459)
	–	29,591	124	81,268	110,983
Net book amount					
At end of period	**7,641**	**90,798**	**4**	**104,327**	**202,770**
At beginning of period	**6,870**	**90,515**	**36**	**85,661**	**183,082**

The buildings, plant, equipment and vehicles are insured at a value of €327.3m (2017: €319.4m). €10m (2017: €10m) of tangible assets has been pledged as security.

Notes to the Financial Statements (continued)

10. Associates, joint ventures & other investments

	2018 €'000	2017 €'000
Associates & joint ventures		
At beginning of period	**1,808**	1,940
Additions in the period	**–**	359
Share of loss after tax during the period	**(500)**	(62)
Impairment (note 4)	**(1,195)**	–
Translation adjustment	**(42)**	(429)
At end of period	**71**	1,808

	€'000	€'000
Loans to associates & joint ventures		
At beginning of period	**12,139**	12,278
Additions in the period	**970**	1,416
Impairment (note 4)	**(2,711)**	–
Translation adjustment	**500**	(1,555)
At end of period	**10,898**	12,139

	€'000	€'000
Other investments		
At beginning of period	**295**	48
Additions in the period	**550**	247
At end of period	**845**	295

11. Inventories

Inventories at period end primarily consist of finished goods for consumption. The amount of inventories recognised as an expense in 2018 was €1,721m (2017: €1,659m).

Reversals of impairments of inventories recognised within cost of sales in 2018 were €11.0m (2017: impairments of €22.0m).

Notes to the Financial Statements (continued)

12. Debtors

	2018 €'000	2017 €'000
Due within one year:		
Trade debtors (i) (iii)	**258,573**	289,540
Prepayments	**12,135**	8,967
Derivative financial instruments	**1,175**	10,558
Corporation tax debtors	**224**	839
Other debtors	**24,036**	22,099
	296,143	332,003
Due after one year:		
Deferred taxation (ii)	**7,262**	6,468
	303,405	338,471
Deferred tax arising from:		
Accelerated capital allowances	**665**	(1,683)
Derivative financial instruments	**481**	(436)
Post employment benefits	**6,033**	5,988
Other timing differences	**83**	2,599
	7,262	6,468

(i) Trade debtors are stated net of a provision for impairment of €2.3m (2017: €2.3m).

(ii) The Group has not recognised deferred tax assets of €6.8m (2017: €5.0m) on the basis that there is insufficent evidence that these assets will be recoverable. Deferred tax assets are expected to substantially reverse in greater than one year.

(iii) The Group also manages credit risk of trade debtors through the use of a number of sales of debtor arrangements. Under the terms of these agreements the Group has transferred substantially all of the credit risks which are subject to these agreements. Accordingly €81.1m (2017: €68.6m) of trade debtors have been derecognised at period-end.

13. Creditors : amounts falling due within one year

	2018 €'000	2017 €'000
Trade creditors	**238,626**	180,483
Amount due to factor (note 15)	**218,858**	214,470
Derivative financial instruments	**7,240**	–
Accruals	**148,242**	166,333
Redeemable loan stock	**2,080**	2,426
Taxation creditors (note 14)	**6,475**	11,940
Other creditors	**2,674**	2,041
	624,195	577,693

Notes to the Financial Statements (continued)

14. Taxation creditors

	2018 €'000	2017 €'000
Corporation tax	**3,140**	7,930
PAYE	**1,467**	1,568
PRSI	**411**	396
VAT	**1,457**	2,046
	6,475	11,940

15. Loans

	2018 €'000	2017 €'000
Amounts falling due after one year (loans)	**199,095**	58,972

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

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

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

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

Under this agreement, the Group acknowledges invoices on behalf of the member suppliers to enable them to receive early payment of those invoices. Upon acknowledgement of member invoices which have been sold to Rabobank, the Group's obligations to the member is extinguished and the Group thereafter assumes an obligation to pay the amount of member invoices sold (2018: €218.9m, 2017: €214.5m) to Rabobank.

Notes to the Financial Statements (continued)

16. Creditors : amounts falling due after one year

	2018	2017
	€'000	€'000
Redeemable loan stock	**3,960**	3,812
Deferred taxation (i)	**4,204**	3,438
Option liability*	**1,649**	1,832
Bank loans (note 15)	**199,095**	58,972
	208,908	68,054

*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	**6,112**	3,288
Derivative financial instruments	**–**	249
Other timing differences	**(1,908)**	(99)
	4,204	3,438

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

Notes to the Financial Statements (continued)

17. Financial instruments

	2018 €'000	2017 €'000
The Group has the following financial instruments:		
Financial assets at fair value through profit or loss		
Derivative financial instruments (i)	**1,175**	10,558
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	**258,573**	289,540
Other debtors	**24,036**	22,099
Investment in associates & joint ventures	**71**	1,808
Preferred shares in associate (ii)	**10,403**	11,665
Loans to joint venture	**495**	474
	293,578	325,586
Cash & bank balances	**88,986**	59,282
Financial assets that are equity instruments measured at cost less impairment		
Other investments	**845**	295
Financial liabilities measured at fair value through profit or loss		
Derivative financial instruments (i)	**7,240**	–
Call option liabilities (iii)	**1,649**	1,832
	8,889	1,832
Financial liabilities measured at amortised cost		
Trade creditors	**238,626**	180,483
Amount due to factor (note 13)	**218,858**	214,470
Accruals	**148,242**	166,333
Redeemable loan stock	**6,040**	6,238
Other creditors	**2,674**	2,041
Loans (note 15)	**199,095**	58,972
	813,535	628,537

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

(i) Derivative financial instruments

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency debtors. At 29 December 2018 the contracts outstanding have an average maturity of 5 months (2017: 5 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 2018, a hedging loss (net of taxation) of €3.3m (2017: gain of €3.7m) 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 2018 a charge of €Nil (2017: €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.

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

(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 16).

18. Provision for liabilities

	Onerous Sales Contracts (i) €'000	Disposal Related Provisions (ii) €'000	Other Provisions (iii) €'000	Total Provisions €'000
At beginning of period	9,150	2,379	2,292	13,821
Provided during the period	5,842	–	1,057	6,899
Utilised during the period	(9,150)	(1,547)	(416)	(11,113)
Translation adjustment	–	61	–	61
At end of period	**5,842**	**893**	**2,933**	**9,668**

(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.

Notes to the Financial Statements (continued)

19. Share capital and reserves

	2018 No. of Shares	2018 €'000	2017 No. of Shares	2017 €'000
Issued share capital				
"A" shares of €1 each	**13,335**	**13**	13,335	13
"B" shares of €1 each	**3,429**	**4**	3,429	4
"C" shares of €1 each	**267**	**–**	267	–
"D" shares of €1 each	**130**	**–**	130	–
Bonus shares of €1 each	**1,672,843**	**1,673**	1,672,843	1,673
Deferred ordinary shares of €1 each	**17,916,961**	**17,917**	17,916,961	17,917
		19,607		19,607

	2018 No. of shares '000	2017 No. of shares '000
The number of issued and fully paid ordinary shares was as follows:		
At beginning and at end of period	**19,607**	19,607

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

20. Net cash inflow from operations

	2018 €'000	2017 €'000
Operating surplus before exceptional items	**40,419**	35,245
Depreciation of tangible assets	**13,096**	11,957
Amortisation of intangible assets	**7,029**	6,628
Increase in inventories	**(185,897)**	(107,942)
Decrease/(increase) in debtors	**35,847**	(62,149)
Increase in creditors	**39,530**	134,479
Post retirement liabilities	**(1,860)**	(2,435)
Cash (used in)/generated from operations (before cash exceptional items)	**(51,836)**	15,783
Exceptional expenditure (excludes bonus paid to members from sale of DPI)	**(254)**	(3,663)
Exceptional expenditure - bonuses paid to members from sale of DPI	**–**	(5,000)
Cash (used in)/generated from operations (after cash exceptional items)	**(52,090)**	7,120

21. Cash and cash equivalents and net debt

	2018 €'000	2017 €'000
Cash and Cash equivalents consist of:		
Cash and bank balances	**88,986**	59,282
Loans (note 15)	**(199,095)**	(58,972)
Net (debt)/cash	**(110,109)**	310

22. Restricted cash

	2018 €'000	2017 €'000
Restricted cash on deposit	**1,950**	3,968

Deposits of €2.0m (2017 : €4.0m) were held at period end within the Group's insurance company and are restricted for use by the Group's insurance company.

Notes to the Financial Statements (continued)

23. Capital commitments

	2018 €'000	2017 €'000
Commitments for which contracts have been placed	**18,730**	9,042
Commitments approved but not contracted for	**42,567**	19,320

24. Post employment benefits

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

The total Income Statement charge in respect of defined benefit schemes for the Group was a charge of €1.0m (2017: charge of €3.2m) of which €2.0m (2017 : €2.3m) has been charged against operating profit before exceptional items and €1.9m (2017: €Nil) has been credited to exceptional items and €0.9m has been charged within other finance costs (2017: €0.9m).

Contributions to defined contribution pension schemes in the period were €1.7m (2017: €1.8m).

The trustees of the Parent Society scheme have obtained an actuarial valuation dated 1 January 2017 using the projected unit valuation method. The trustees of the Ornua Foods UK Limited scheme have obtained an actuarial valuation dated 31 December 2015 using the projected unit valuation method. Valuations as at 29 December 2018 have been obtained for the internally funded schemes. Under FRS 102, these valuations, and the most recent actuarial valuations of the other post retirement schemes, have been updated by independent qualified actuaries in order to assess the liabilities of the schemes as at 29 December 2018.

The Irish scheme closed to future accrual in 2018. It has been agreed that the employer contributes €1.0m annually to the Irish scheme.

For the other schemes it has been agreed that an employer contribution rate of 17.5% of pensionable salary plus an additional €0.3m will apply annually and that the expected contributions for 2019 are €0.6m.

Financial assumptions

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

	2018	2017	2018	2017
	Irish Scheme		Other Schemes	
	%	%	%	%
Inflation rate	**1.65**	1.65	**2.20**	2.20
Salary rate increases	**2.65**	2.65	**2.90**	3.40
Pension payment increases	**1.65**	1.65	**2.20**	2.20
Discount rate	**2.20**	2.10	**2.80**	2.40

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

Financial assumptions (continued)

In valuing the liabilities of the pension funds at 29 December 2018, 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 2018/2017		Other Schemes 2018/2017	
- Current pensioner aged 65	24 years male	26 years female	22 years male	24 years female
- Future retiree* upon reaching 65	27 years male	29 years female	24 years male	26 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.

	2018	2017	**2018**	2017	**2018**	2017
	Irish Scheme		**Other Schemes**		**Total**	
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Equities	**29,049**	38,605	**11,552**	28,170	**40,601**	66,775
Bonds	**21,970**	22,241	**19,834**	14,721	**41,804**	36,962
Property	**2,235**	2,070	**550**	422	**2,785**	2,492
Other	**34,254**	30,018	**7,958**	957	**42,212**	30,975
	87,508	92,934	**39,894**	44,270	**127,402**	137,204
Actuarial value of liabilities	**(116,446)**	(120,122)	**(52,528)**	(57,942)	**(168,974)**	(178,064)
Net deficit in the schemes	**(28,938)**	(27,188)	**(12,634)**	(13,672)	**(41,572)**	(40,860)

	2018	2017	**2018**	2017	**2018**	2017
	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	**1,440**	1,681	**548**	637	**1,988**	2,318
Past service cost (note 4)	**–**	–	**658**	–	**658**	–
Curtailment gain (note 4)	**(2,578)**	–	**–**	–	**(2,578)**	–
Net interest expense	**585**	589	**325**	366	**910**	955
	(553)	2,270	**1,531**	1,003	**978**	3,273

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

Movement in benefit obligations during the period	Irish Scheme 2018 €'000	Other Schemes 2018 €'000	Total 2018 €'000
Benefit obligations at beginning of period	120,122	57,942	178,064
Current service cost	1,440	548	1,988
Past service cost	–	658	658
Curtailment gain	(2,578)	–	(2,578)
Interest expense	2,524	1,363	3,887
Plan participant's contributions	215	104	319
Actuarial gain	(2,194)	(4,952)	(7,146)
Benefits paid from plan	(3,083)	(2,336)	(5,419)
Exchange adjustment	–	(799)	(799)
Benefit obligations at end of period	**116,446**	**52,528**	**168,974**
Movement in plan assets during the period			
Fair value of plan assets at beginning of period	92,934	44,270	137,204
Interest income	1,939	1,038	2,977
Remeasurement gains / (losses):			
Return on plan assets excluding interest income	(6,206)	(3,334)	(9,540)
Employer's contributions	1,709	778	2,487
Plan participant's contributions	215	104	319
Benefits paid from plan	(3,083)	(2,336)	(5,419)
Exchange adjustment	–	(626)	(626)
Fair value of plan assets at end of period	**87,508**	**39,894**	**127,402**
Deficit in schemes	**(28,938)**	**(12,634)**	**(41,572)**
Actual return on plan assets	**(4,267)**	**(2,296)**	**(6,563)**

25. Financial commitments

a) Operating leases

At 29 December 2018, the Group had future minimum payments under non-cancellable operating leases as follows:

	2018 €'000	2017 €'000
Payments due:		
Not later than 1 year	**2,540**	2,437
Later than 1 year and not later than 5 years	**5,660**	4,329
Later than 5 years	**7,992**	7,528
	16,192	14,294

Notes to the Financial Statements (continued)

25. Financial commitments (continued)

b) Bank guarantees

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

	2018 €'000	2017 €'000
Bank guarantees	**11,611**	8,960

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

c) Other financial commitments

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

	2018 €'000	2017 €'000
Forward foreign currency/commodity contracts	**418,147**	395,197

26. 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 29 December 2018 amounted to €26.1m (2017: €20.8m) and purchases from members amounted to €1,280.0m (2017: €1,134.9m). Amounts receivable from and payable to members arising from the aforementioned sales and purchases transactions as at the balance sheet date are €14.0m (2017: €14.5m) and €108.6m (2017: €90.8m) respectively. There are other payable balances of €2.7m to members (2017: €2.0m).

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

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

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

Notes to the Financial Statements (continued)

26. Related party transactions (continued)

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

The remuneration of key management personnel was as follows:

	2018 €'000	2017 €'000
Total Directors fees (15 in 2018 & 15 in 2017)	**562**	561
Global Executive Remuneration (7.3 Executives in 2018 & 8.5 in 2017):		
Basic salary	**2,111**	2,374
Performance related bonus/LTIP	**1,020**	919
Other benefits	**251**	275
Employers pension contribution	**295**	312
Employers PRSI	**329**	371
Total Global Executive remuneration	**4,006**	4,251

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.

27. Long term incentive plan

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

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

The total amount expected to be paid out under the scheme is expensed over the vesting period, which is three years, and vested awards are settled by way of cash payment to employees over the following 3 years. The Group has not established a separate fund out of which obligations will be settled directly. The Group has a charge of €0.9m (2017: charge of €Nil) within employment costs in relation to the scheme, and the obligations recognised within liabilities at period end amounts to €2.0m (2017: €1.1m).

Notes to the Financial Statements (continued)

28. Significant subsidiary companies and associates

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

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

Notes to the Financial Statements (continued)

28. Significant subsidiary companies and associates (continued)

In accordance with section 357 of the Companies Acts 2014, Ornua Co-operative Limited of Grattan House, Mount Street Lower, Dublin 2 as the holding undertaking of the Irish subsidiary companies (defined below) incorporated in Ireland and for the purposes of the exemptions referred to in section 357 of the Companies Acts 2014, and not otherwise, hereby irrevocably guarantees in respect of the whole of the financial period of the Irish Subsidiaries ending on the 29 December 2018, all of the liabilities of the Irish subsidiaries; provided that this guarantee shall not extend to any liability or commitment of the Irish Subsidiaries which shall not have arisen otherwise than in respect of that financial year or which shall not constitute a liability or loss. The 'Irish subsidiaries' covered by this guarantee are: Kerrygold Limited, Kerrygold Irish Cream Liqueur Limited, Kerrygold Butter Packing Ireland Limited, Ornua Limited, Salsola Limited, An Bord Bainne (Management) Limited, IDB Treasury Limited, IDB Investment Limited, The Irish Dairy Board Limited, IDB Premier Limited, An Bord Bainne (Services) Limited and An Bord Bainne (Exports) Limited.

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

29. Post balance sheet events

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

30. Approval of financial statements

The financial statements were approved by the Board of Directors on 13 March 2019.

Board of Directors & Executive

Board of Directors*

Aaron Forde
Chairman

Pat Sheahan
Vice-Chairman

Jim Bergin
Denis Cregan
John Daly
Peter Fleming
Michael Hanley

Jason Hawkins
Martin Keane
Pat McCormack
John O'Gorman
Tom Phelan

Conor Ryan
Jim Russell
Jim Woulfe

Executive*

John Jordan
Chief Executive

Donal Buggy
Chief Financial Officer

Joe Collins
Chief Risk Management Officer

Bernard Condon
Managing Director Global Ingredients Division

Majella Darcy
Chief People Officer

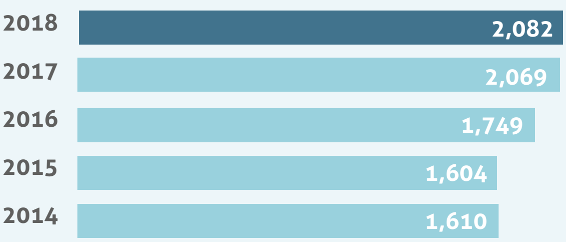
Róisín Hennerty
Managing Director Global Foods Division

Gisbert Kügler
CEO Ornua Deutschland

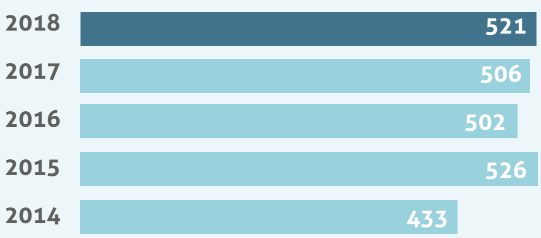
*As at 29 December 2018

Group Five Year Review

2018 Group Turnover* – €2,082 million



2018 Members' Funds – €521 million



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

	2014 € '000	2015 € '000	2016 € '000	2017 € '000	2018 € '000
a) Historical values					
Turnover	2,339,784	2,543,413	1,749,367	2,069,219	2,082,059
EBITDA	49,688	58,814	43,082	53,830	60,544
Operating profit	28,067	34,104	26,611	35,245	40,419
Profit before taxation and exceptional items	23,995	28,265	22,556	31,170	35,355
Net debt/(cash)	99,328	17,274	(57,155)	(310)	110,109
Members' funds	433,272	525,821	502,439	505,814	521,360
b) Financial ratios					
EBITDA as % of turnover	2.1%	2.3%	2.5%	2.6%	2.9%
Operating profit as % of turnover	1.2%	1.3%	1.5%	1.7%	1.9%
Leverage (Net debt/(cash)/EBITDA) (times)	2.0x	0.3x	(1.3x)	(0.01x)	1.8X
Interest Cover (EBITDA/Interest Payable) (times)	15.9x	12.6x	11.6x	17.6x	16.6X

Figures are reported under FRS102 for all years.

Irish Product Utilisation Overview

Total Irish Milk Supply (million litres)

	2018*	2017*
January	162	149
February	294	273
March	628	621
April	823	866
May	993	1,000
June	925	918
July	853	875
August	824	787
September	722	654
October	642	534
November	458	381
December	256	206
Total	**7,579**	**7,262**

Source: CSO
*Figures subject to rounding

Total Irish Product Output (tonnes)

	2018	2017
Butter	239,900	223,700
Cheese	200,000*	196,200
SMP	133,800	119,800

Source: CSO/Ornua
*estimate

Ornua

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