# ORNUA

— ANNUAL REPORT 2019 —

## — OUR PROUD HISTORY —

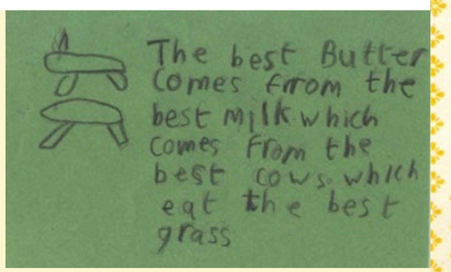


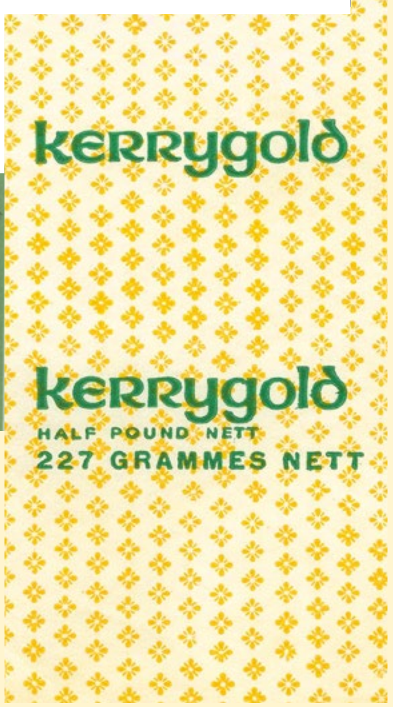
↑ Vincent Colgan, an Bord Bainne, pictured with President of Ireland Eamonn de Valera at the Spring Show in 1961

↓ By the late 1960s, confident young Ireland was taking flight and Kerrygold was literally taking off with it

↑ The name Kerrygold was chosen from a shortlist of 60 including Leprechaun, Buttercup and Tub o' Gold

↓ Irish troops serving with the UN delighted to find Kerrygold in the corner store in Cyprus in 1964


“ Today 8.6 million packets of Kerrygold butter are sold each week

## — THE WORLD LOVES KERRYGOLD —

↑ Taiwan, 1983

↑ Malawi, 2016

↑ Mauritius, 1984

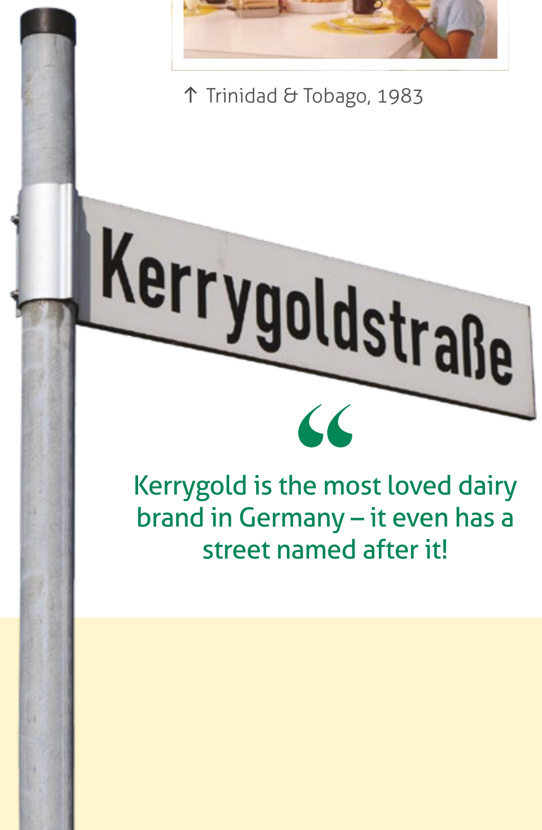

↑ Saudi Arabia, 1986

↑ Kerrygold butter has the same great taste since 1962

↑ Trinidad & Tobago, 1983

↑ Cyprus, 1983

↑ Japan 1990




“ Kerrygold is the most loved dairy brand in Germany – it even has a street named after it!


# — ADVERTISING THROUGH THE AGES —

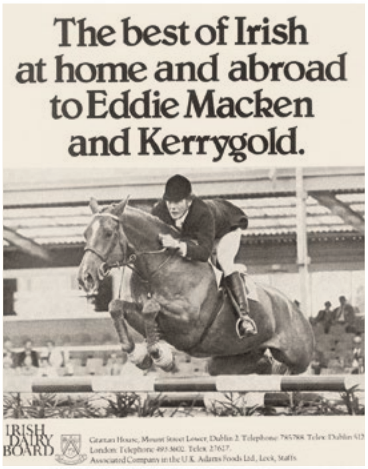

→ The launch of a legend – Kerrygold's first advertising campaign in the UK in 1962

↓ John Treacy was conquering the world, winning the Cross-Country Championship, and we were with him every step of the way



→ *The World's Greenest Dairyland* international poster campaign put Ireland, and Kerrygold, on the map

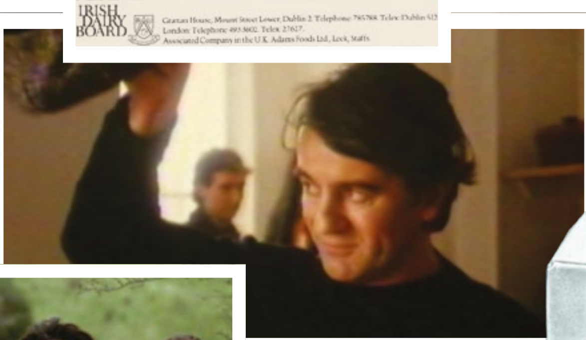

↑ The arrival of Kerrygold Milk Powder in the Democratic Republic of Congo put a spring in the step of shoppers




← International showjumping legend Eddie Macken helped spread the name Kerrygold far and wide at the Dublin Horse Show


↑ Kerrygold crosses the Atlantic and its cheese was a big hit with US consumers

→ Kerrygold adverts become as legendary as the butter. 'Put a bit of butter on the spuds André' is a big hit in Ireland



← Back on the box – one of the much-loved classics 'Who's taking the horse to France?' takes to Irish airwaves in the 90s

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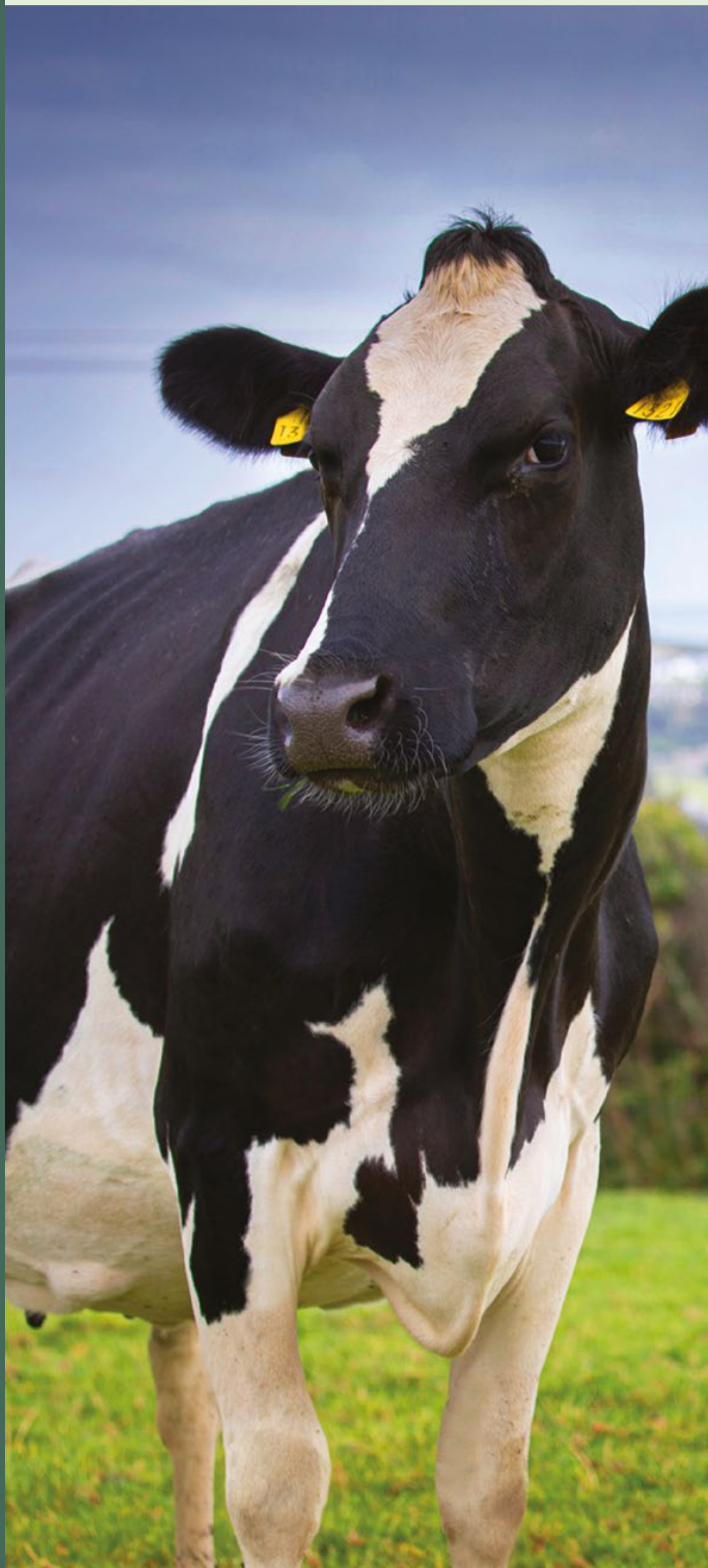


Ornua is a dairy co-operative which sells dairy products on behalf of its members; Ireland's dairy processors and, in turn, Irish dairy farmers.

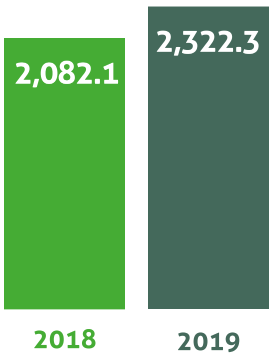
# — PERFORMANCE AT A GLANCE —

## Financial Highlights

### Turnover €m

**11.5%** ↑

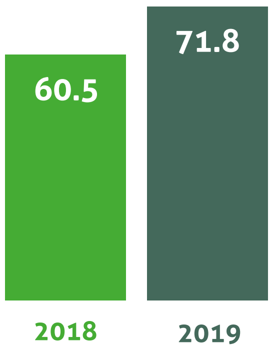
Year-on-Year change




### Group EBITDA* €m

**18.7%** ↑

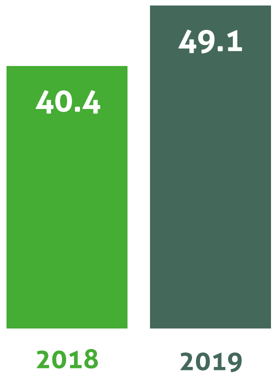
Year-on-Year change




### Operating Profit* €m

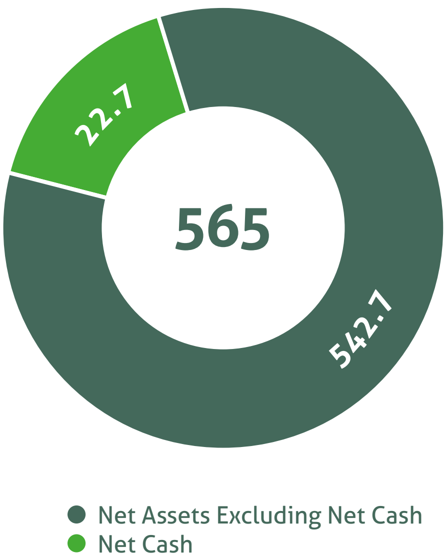
**21.5%** ↑

Year-on-Year change




*Before exceptional items

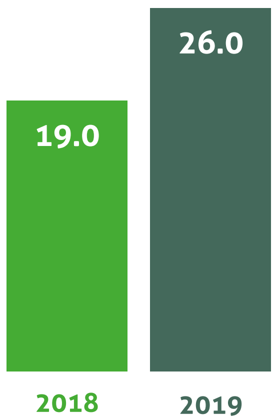
### Net Assets €m




### Member's Bonus €m

**36.8%** ↑

Year-on-Year change



# CREATING VALUE FOR IRISH FARMERS

**Member's Bonus**

## €26 million
Ornua will pay a total Member's Bonus of €26 million

**Kerrygold Premium**

## €18.5 million
Ornua pays a premium to members for Kerrygold product which equated to €18.5 million in 2019

**Guaranteed Routes to Market**

## 340,000MT
340,000MT of Irish product sold through Ornua's value-added routes to market

**Fixed Milk Price Contracts**

## 400 million litres
of milk equivalent was purchased under fixed price contracts, helping protect members and farmers against volatility

**Working Capital Facilities**

## €350 million
Ornua provided working capital facilities to members of up to €350 million through our Reverse Invoice Discounting facility

# 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 members, Ireland's dairy processors, and dairy farmers to create shared value for the Irish dairy industry.

Irish family farmers produce the best quality milk in the world. This, coupled with well-invested dairy processing facilities and Ornua's sustainable routes to market, form the foundations on which Ornua has been able, and will continue, to thrive.

# €1 Billion


Kerrygold exceeding €1 billion in annual retail sales becoming **Ireland's most successful food brand**

## Ornua 2025

Development of a new 5-year growth plan, Ornua 2025, and global HR strategy to enable its delivery

Roll out of a new **organisation design** supporting the drive to simplify and grow the business

Carbon targets achieved with waste and water targets on track for 2021. Roadmap in place for new targets across entire supply chain

**New governance structure agreed** by the Board with implementation planned for 2020

**53 female leaders** in Ireland, UK, Spain, Germany, North America, Africa and China participated in our **Women in Leadership** programme

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Opening of **€30 million state-of-the-art pizza cheese production facility** in Ávila, Spain

evolve

Go-live of the first site under **Ornua's business transformation project, Evolve,** in the UK

# — OUR GLOBAL BUSINESS —

**Ireland's largest exporter of dairy products**

**Exporting to**

# 110

**markets globally, for nearly 60 years**

## 13

**Production Facilities**

## 9

**Innovation Centres**

## 2,400

**passionate employees from over 55 countries worldwide**

Read more about our global business:

**Ornua Foods**
See page 16

**Ornua Ingredients**
See page 18

**Owner of Kerrygold: Ireland's only billion-euro food brand**

**Representing**

# 14,000

**Irish Dairy Farmers**

— **OUR STORY** —

Darran & Annie McKenna
Emyvale
Monaghan

## *Generations of Family Farms*

For our farmers, dairy farming is in the blood. 99% of Irish farms are family owned and have been in the family for centuries. This has resulted in each generation leaving their mark on the land, handing down skills and knowledge to the next.

At least five generations are known to have farmed in the McKenna's family farm in Monaghan. Darran has worked the farm his entire life and is a real family man – he loves farming life and believes it is a great way to raise a family.

Find out more at kerrygold.com/grassfed


Ornua achieved considerable progress in the year with double-digit growth in revenue and profit, a strong Member's Bonus, a historic year for the Kerrygold brand, and new structures that will strengthen Ornua's future position within changing global markets.

**Business Performance**

In my first address to you as Chairman, it is a privilege to report that Ornua has continued its growth trajectory delivering a robust performance in 2019. Group turnover progressed 11.5% to reach €2.3 billion in 2019 and Group EBITDA* increased by 18.7% while Operating Profit* grew by a significant 21.5% to €49.1 million.

For Ornua Foods an exceptional highlight of 2019, and a proud moment for farmers, is the historic achievement of the Kerrygold brand in reaching €1 billion in annual retail sales. This achievement is, in no small part, attributable to the farmers who are committed to quality grass-fed farming every day, the Ornua co-op members who are dedicated to first-class manufacturing processes and the Ornua team who bring this premium quality product to 110 markets worldwide with pride, passion and skill. The Board is pleased to note that the success of Kerrygold has enabled Ornua to pay a brand premium of €18.5 million to members for Kerrygold product in the year.

The Board was pleased to mark the re-opening of the state-of-the-art Ávila facility in Spain last year and commend the Ornua Executive team and staff on delivering this strategic €30 million investment programme within a two-year timeframe.

The strength of the 2019 performance is evidence of a diversified business, built on robust foundations, and an executive management team that is committed to mitigating external global challenges – of which there are many – to deliver strong growth for its members. Ornua will pay a 2019 Member's Bonus of €26 million, a significant increase of 36.8% year-on-year and the Board is pleased to note it has delivered strong product price returns throughout the year.

**Markets**

In the context of unprecedented political volatility including US-China trades disputes, punitive US trade tariffs on Irish butter and cheese, and Brexit, farm-gate milk prices recorded a modest increase year-on-year across Europe. Irish farm-gate milk prices remained stable throughout the year with milk prices above 30 cent per litre for the third year in a row. Looking ahead significant global volatility remains, and the Board is of the view that the potential impact of the geopolitical environment into 2020 should not be underestimated.

*Before exceptional items

## Coronavirus

The full impact of COVID-19 on the world economy is yet to be determined. Business uncertainty will have an impact on market sentiment and as the largest global dairy importing market, China is expected to see a decline of 1% in total dairy demand, potentially leading to a 11% reduction in imports. As this outbreak continues to unfold worldwide, it will likely have a negative effect on the global dairy market. The Executive team have assembled a task-force to closely monitor and mitigate against the associated risk.

## Brexit

Ornua has implemented strategic mitigation measures to address the business impact of Brexit on its operations. As we now move into the next phase of Brexit, the pressing need to reach trade agreements that maintain access to the UK and global markets on favourable trading terms for our dairy exports is imperative.

## A Green Future

As we enter the decade to 2030, decarbonisation remains a top priority for political and business leaders across the globe. The Board notes the strategic resources Ornua has committed to sustainability through its *Our Way Matters* framework. This delivered an 8% reduction in emissions across Ornua's operations in 2019. Ornua is also collaborating with key industry partners to drive sustainability improvements more widely, in support of the Irish Government's Climate Action Plan and aligned to the United Nation's Sustainable Development Goals.

A Green Future

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## Board and Governance

Ornua remains committed to high standards of business oversight and acknowledges the value that strong corporate governance brings to the long-term sustainable success of an organisation. The Board is committed to implementing appropriate corporate governance arrangements, having regard to best practice and taking into account the global scale of Ornua, the nature of its business and its co-operative ethos.

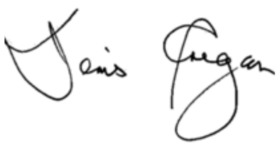
Following a review of Board governance structures during the year, the Directors of Ornua have agreed a new governance structure consisting of an Advisory Council and an Ornua Co-Operative Board. There will be no change in shareholder structure. The Board will seek shareholder approval on the necessary rule changes to establish this new structure during 2020. The new structure is in the best interest of shareholders as it will future proof the organisation as Ornua enters a new phase of growth, through Ornua 2025, and continues to navigate increasingly complex and challenging global trading conditions.

## Appreciation

I would like to extend my gratitude to my predecessor, former Chairman Aaron Forde, for his steadfast commitment to Ornua during his 15 years on the Board of Ornua, the last six of which were as Chairman. During this period, we saw the abolition of milk quotas and a change of name (from the Irish Dairy Board) in 2015, the appointment of Ornua's first independent non-executive director in 2016 and a major review and updating of the Rules of Ornua in 2017. On behalf of the Board, I wish to commend Ornua's 2,400 employees worldwide for the dedication and pride they bring to their work every day.

There are few organisations for which 'grass roots' are as important as they are for Ornua. To the 14,000 farmers who work tirelessly year-round with our member co-operatives to produce the quality of product that is synonymous with Ornua and the Kerrygold brand, on behalf of the Board I thank you sincerely.

It is this spirit of excellence throughout the organisation, and each of its collaborators, that is key to the strong performance delivered by Ornua in 2019.



**Denis Cregan**
Chairman


On behalf of the Group, I am pleased to report another robust performance in 2019 with significant growth in revenue and profit generation alongside strong investment in our brands and food ingredients' business portfolios in many of our international markets.

### Financial Performance

Group turnover was up 11.5% year-on-year to €2.3 billion in 2019. Group EBITDA* reached €71.8 million, up 18.7% year-on-year, with an Operating Profit* of €49.1 million, up 21.5% year-on-year. This performance was achieved during a period of sustained investment in the business including the opening of a state-of-the-art production facility in Spain, the first implementation of our business transformation project in the UK and continued investment in our brand portfolio, in particular, Kerrygold and Pilgrims Choice.

These results were achieved against the backdrop of a challenging global trading environment characterised by US trade tariffs, continued economic uncertainty associated with Brexit and market volatility. Ornua's increased focus on product and market diversification, as well as our scale and agility, have allowed us to mitigate against these challenges and pay a €26 million year-end Member's Bonus, up 36.8% year-on-year, as well as strong returns across 340,000MT of Irish dairy product purchases.

### Brand Performance

2019 was a momentous year for the Kerrygold brand as it surpassed €1 billion in annual retail sales cementing it as Ireland's most successful food brand. The success of Kerrygold is a direct result of brand and infrastructure investment in strategic markets for nearly 60 years, all made possible by the 14,000 Irish farming families that we represent.

Kerrygold is well-placed to continue its trajectory of growth. In 2019, market share grew in key strategic markets of Germany and the US while new product extensions of our cheddar portfolio were launched in Germany and the US where market share of the category grew to 43% and 20% respectively. This success has allowed Ornua to pay a brand premium of €18.5 million to members for Kerrygold product in 2019.

### Ingredients

2019 was a special year for Ornua Ingredients as it saw the rebuild and opening of our €30 million mozzarella and pizza cheese production facility in Ávila, Spain. The factory was opened two years to the day after it was sadly destroyed by a devastating fire. The passion and commitment of our teams has allowed us to deliver a facility that encompasses scale, efficiencies and technologies that will secure our position as a leading pizza cheese supplier.

*Before exceptional items

### Strategy Enablement

In 2019 Ornua undertook an extensive review to develop a focussed growth plan, Ornua 2025, to drive our next stage of growth. This ambitious plan is founded on driving value to ensure we are delivering the best possible return to our members.

To enable future growth, we have committed to a multi-year business transformation project, Evolve, which will standardise and enhance our ways of working. 2019 saw the first of our operational sites implement this new way of working with plans for further site implementations in 2020.

### Sustainable Growth

Climate action is one of this generation's greatest challenges. As the world population grows, and demand for food increases, it is imperative that we continue to produce high quality, nutritious food with a focus on caring for our environment. Ireland has a global reputation for sustainable food production and can be a true leader in this area. I am enthused by the collaborative work carried out at industry level to address these accelerating challenges. Ornua will continue to play its part to drive sustainability improvements to reduce emissions across our business and, collaboratively, across our sector.

Together with industry partners, we are investing in new technology to help directly address the level of carbon emissions produced by cows. In addition, much work has been done in our own operations to reduce total carbon emissions; we achieved an 8% reduction in carbon emissions in 2019 despite an 8% increase in total production. Significant strides were made in 2019, which will be built upon even further to strengthen Ireland's hard-earned reputation as a global provider of sustainably produced dairy.

### Our People

The success of Ornua is built on the commitment, passion, and dedication of our people. I am proud of the achievements of our global teams and am committed to fostering a culture of belonging where people are supported to grow both personally and professionally.

In 2019, a new organisational design was successfully rolled out that underpins our transformation programme and backs the drive to simplify our business. A new 5-year HR strategy was also developed which will enable Ornua 2025. This strategy focusses on talent development, succession planning and sustainable leadership which will support and harness the potential of our people.

Our Diversity & Belonging strategy has made great progress towards building a diverse workforce that represents the 110 markets we operate in.

### The Future

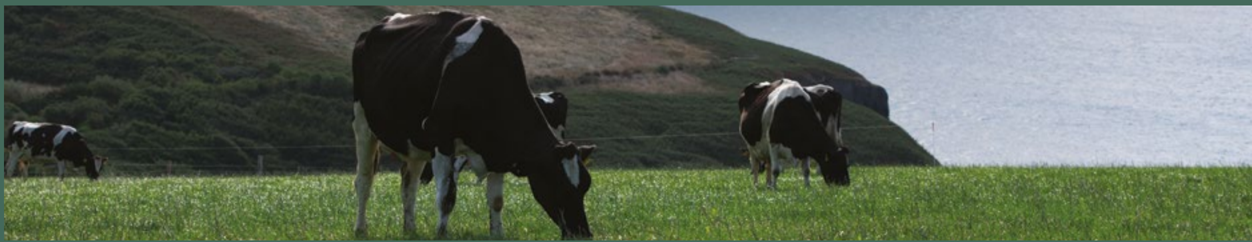
The global trading environment which we operate in continues to pose challenges. 2019 saw the unwelcomed introduction of US tariffs, extreme weather events and market volatility while 2020 will reveal the full implications of Brexit as well as the effects of COVID-19 on global trade.

I am confident in Ornua's ability to mitigate against risk to add value for our members. We offer a guaranteed route to market for Irish dairy. In addition, we are in a position of strength to deliver high quality, nutritious dairy products that meet consumer demand for sustainable food production all over the world.

I would like to extend my sincere thanks to our Executive team and our Board of Directors, particularly Aaron Forde who stepped down as Director and Chairman. Thank you to Denis Cregan who took up the role of Chairman during the period. I would also like to thank our 2,400 employees for their unwavering support. Finally, I would like to thank our member co-operatives and the generations of Irish farmers that continue to believe in Ornua's capability to deliver for them and their families.

**John Jordan**
Chief Executive

# Global Markets



European farm-gate prices remained stable in 2019 in a year of unprecedented political volatility including US-China trade wars, US trade tariffs and Brexit. EU farm-gate milk price increased slightly year-on-year but didn't deviate much from the yearly average.

Irish farm-gate milk prices were relatively stable year-on-year. Milk prices remained above 30 cent per litre for the third year in a row and dairy farm incomes increased through a combination of higher output and lower input costs including feed and fertiliser.

Global milk supply from the major exporters, measured in solids, increased marginally in 2019. On the demand-side, European export trade was strong, but this was offset by weaker domestic consumption with total European demand up 1% year-on-year. Thus, milk supply largely matched dairy demand which facilitated the stability in farm-gate milk prices.

Global cheese production increased slightly while domestic consumption in Europe was flat. This resulted in a well-balanced cheese market with cheddar pricing not deviating more than €100 per tonne from the yearly average.

By contrast, European commodity butter showed some level of volatility with a price swing of €800 per tonne from Q1 highs to Q4 lows due to strong supply, stock rebuild and weaker domestic consumption. Over the course of the year Skim Milk Powder (SMP) prices improved by 40% which was influenced by the clear out of intervention stock, muted fresh supply and record exports from Europe.

While there has been a big shift in the ratio between fat and protein pricing, the rise in SMP prices helped offset weaker butter prices and milk returns from this product mix remained stable.

Looking forward to 2020, global milk supply is forecast to grow by 1%. Farmers will continue to increase yield-per-cow and milk solids, but the push to improve the environmental sustainability of dairy farming and reduce emissions will likely add costs and constrain growth in supply. Harmful weather events are also becoming more frequent and global milk supply growth in the range of 0.5% and 1% may become the 'new norm'.

On the demand-side, despite the threats associated with COVID-19, trade wars and plant-based substitution, third country exports are expected to continue to deliver solid year-on-year growth driven by a growing global middle class, particularly within Asia.

After an exceptionally strong 2019 performance, the growth-rate of milk powder imports to China are expected to ease off. Combined with a slowdown in the growth of dairy consumption among European consumers, global dairy growth of 1% is anticipated in 2020. Currently the daily impact of COVID-19 on global trade, supply chains and dairy consumption is becoming very serious. This will add to market volatility and negatively impact on milk prices through 2020.

**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, Dubliner, Pilgrims Choice, Kerrygold Avantage, Forto and BEO. Markets are served by production facilities and in-market sales and marketing teams in Africa, Asia, Germany, Ireland, the rest of Europe, the Middle East, the UK, 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. The business is supported by production facilities in Saudi Arabia, Spain, the UK, the US and by in-market teams in Africa and the Middle East.

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# From Green To Gold

## Benefitting from 55 years of sustained brand investment in markets all over the world, the Kerrygold brand surpassed €1 billion in annual retail sales in 2019 cementing it as Ireland's most successful food brand.

In 2019, Kerrygold enjoyed the highest repeat purchase rate against competitors in Germany, the UK and the US which demonstrates consumer loyalty and a consumer preference for high quality, grass-fed dairy with a richer taste.

As the most loved dairy brand in Germany, Kerrygold butter continued to be the fastest selling food or drink brand on supermarket shelves. Brand success in-market has enabled product diversification and has driven volume growth. In 2019, Kerrygold cheddar enjoyed phenomenal success growing its market share to 43% driving significant category growth and cementing itself as the clear market leader. Kerrygold cheddar vintage slices were launched and awarded *Product of the Year* in the German retail trade press.

Despite the introduction of additional tariffs in the latter half of the year, the US market enjoyed another year of double-digit volume growth in 2019 with Kerrygold butter and cheese driving significant category growth. The introduction of Kerrygold Shreds & Slices in-market has enjoyed major distribution gains with 1.8 million packets sold last year. In addition, the product won *Best Sliced Cheese* in People Magazine's prestigious Food Awards.

In the UK, Kerrygold outperformed the branded butter category in both value and volume and enjoyed significant distribution wins nationally. The brand continues to build its portfolio across European markets with a focus on increased market share for Kerrygold Regato in Greece. In Poland, Kerrygold was voted *Brand of the Decade* for quality, trust and reputation.

In Africa, volume growth was achieved in the powder portfolio in key markets of Nigeria, DRC and Angola. In 2019, Kerrygold Avantage launched in Nigeria addressing the demand for a premium fat-filled powder.

Despite the UK branded cheddar market being in decline, Pilgrims Choice outperformed the category in terms of value and volume and currently enjoys 18% market share. In addition, Ornua Foods UK grew its volume by 7% in 2019, with significant wins across its own label business with key customers.

**8.6 million**

**packets of Kerrygold butter are sold globally each week**

↑ Marketplace launch of Kerrygold Avantage in Nigeria addressing the consumer demand for premium fat filled powder

↑ A very special day: Minister for Agriculture, Food and the Marine, Michael Creed with Róisín Hennerty, Managing Director Ornua Foods celebrating Kerrygold reaching €1 billion in annual retail sales

↑ → Key tastemakers from US editorial and culinary industries on their Kerrygold – Taste of Ireland tour showcasing Ireland's rich dairy heritage and natural sustainability credentials


→ The Cleary sisters at the launch of Kerrygold's global digital campaign *A True Taste of Kerrygold* which put Ireland's grass-fed family farming system centre-stage reaching over 36 million consumers

**Cream from 1 in 4 Irish cows was needed to produce Kerrygold butter in 2019**

# Trusted Partners

## Ornua Ingredients prides itself on developing sustainable, long-term partnerships that harness its dairy expertise, global scale and agility to deliver bespoke solutions that meet customers' needs today and into the future.

Ornua Ingredients Ireland had a successful year with sales volumes increasing by 18%. The business put an increased effort in efficiently managing stocks to maximise market returns for farmers. Brexit uncertainty continued to be a challenge with a clear focus on mitigating against any associated risk.

Ornua Ingredients North America experienced another record year with double-digit volume and profit growth. Ornua continued to partner with key customers to develop innovative technical solutions in the breakfast category and the pizza cheese category, supplying cheese for over 50 million frozen pizzas last year. In 2019, the business developed technical solutions for pairing meat and cheese in products, leveraging its 2017 product line investment, which saw growth in both the shred and diced business. An ambitious capital investment plan was approved for 2020 which will enable the next phase of business growth in-line with Ornua 2025.

Ornua Ingredients Europe opened its new, €30 million, state-of-the-art cheese production facility in Ávila, Spain. The 35,000-tonne mozzarella and pizza cheese facility enhances Ornua's pizza cheese making capacity and capabilities. In 2019, pizza ropes were introduced to its product portfolio opening new opportunities in the stuffed crust pizza market. Ornua Ingredients Europe won *Supplier of the Year* for Telepizza in 2019 securing its position as a leading pizza cheese supplier.

Ornua Ingredients International enjoyed significant volume growth of 58% year-on-year with a focus on new customer development in Nigeria, cheddar sales in Algeria and fat-filled powder sales across West Africa. Partnering with members, significant improvements were made to its fat-filled powder product offering where Ornua currently enjoys 17% of the market share across the top 10 importing countries in Africa, with significant future growth opportunity.


↑ Ornua Ingredients enhanced its pizza cheese capability with investment in R&D to develop the next generation of pizza cheese for a $130 billion global market

↑ The team in Ávila celebrate the opening of its new state-of-the-art production facility two years to the day it was destroyed by a devastating fire


↑ Ornua Ingredients enjoyed significant business wins with blue-chip food ingredient customers and global Quick Service Restaurants. 2019 saw the relaunch of Spinneyfields foodservice brand with a renewed growth strategy

← Ornua Ingredients North America experienced another record year of double-digit volume and profit growth. A new capital investment plan was approved for 2020 for the next phase of business growth

— **OUR STORY** —

Vanessa Kiely O'Connor
West Cork

## *Guardians of the Land*

On Irish farms the land, the animals and the people are intrinsically linked. Irish farmers are the custodians and are part of Ireland's 6,000-year tradition of dairy farming.

Vanessa Kiely O'Connor is a dairy farmer in West Cork and is very much a caretaker of the land. She is passionate about sustainability – from the soil to the grass it is a huge responsibility for her to make sure it is right for her animals.

Find out more at kerrygold.com/grassfed

# Our Way Matters

Ornua is committed to playing its part in safeguarding the Irish dairy industry for generations to come. *Our Way Matters* is the road map that guides and informs the delivery of our corporate social responsibility and sustainability strategy within Ornua, delivered in partnership with our customers and in collaboration with our employees and our members.

Ornua has a dedicated sustainability team focussed solely on driving the organisation’s sustainability programme and engaging with wider industry stakeholders to drive positive improvements in the sectors’ sustainability performance linked to the United Nation's Sustainable Development Goals.

**There are three pillars to Ornua’s *Our Way Matters* sustainability framework which guide all initiatives and partnerships:**

Our Way of Farming

Our Way of Operating

Our Way of Supporting

# 2019 HIGHLIGHTS

## Our Way of Farming

→ The Hearne family crowned Ireland's top-quality milk producer at the NDC & Kerrygold Quality Milk Awards

→ McKenna family, winners of the 2018 awards, welcome farmers from all over the country to learn about best practice initiatives on farm

→ Chefs Jess Murphy and Clodagh McKenna launch the 2019 NDC & Kerrygold Quality Milk Awards with a dairy inspired pop-up breakfast in Franks, Dublin

At the heart of sustainable and quality milk production is the NDC & Kerrygold Quality Milk Awards which celebrate the pride, passion, and dedication of Irish dairy farmers – elements which are vital to the success of the Kerrygold brand worldwide. In 2019 the competition extended its sustainability criteria to further champion farmers who see caring for their environment as a core part of farming life now and into the future.

The wider agricultural sector acknowledges that reducing carbon emissions is critical to delivering a more sustainable farming and food production model. Ornua has invested in the trialling of a new technology to help directly address the level of carbon emissions produced by cows. Along with industry partners and led by Teagasc, Ireland's agriculture and food development authority, this technology has the potential to reduce methane emissions from cows.

This is just one example of how Ornua is supporting innovative sustainability solutions.

Ornua's future sustainability efforts will see even more emphasis on contributing to the reduction of carbon emissions at the farm-gate, contributing to the delivery of our overall sustainability strategy.

In-line with best practice in sustainable farming and operations, Ornua is a verified Origin Green member.

Origin Green IRELAND

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

## — 2019 HIGHLIGHTS —

# Our Way of Operating


In 2019, Ornua's operations delivered considerable progress with total carbon emissions reduced by over 8% while simultaneously, production volumes at Ornua sites increased by over 8%. We have now surpassed the target we set in 2016 to reduce carbon emissions per tonne by 15% by 2021.

We are producing more with fewer emissions and we will seek to continue on this trajectory. To put this into context, to produce 2019 volumes in 2016 would have yielded nearly 5,000 tonnes more carbon which equates to the annual carbon emissions of over one thousand cars.

Installation of new refrigeration and lighting systems, heat recovery systems, and energy efficient compressors across production facilities in the UK, Germany, and Spain have contributed to this achievement. The Ornua Way operational excellence programme is central to these results.

The programme has also delivered €10 million in savings over the last three years.

Building on our carbon reduction ambitions, Ornua is currently partnering with Carbon Trust UK to evaluate the organisation's entire supply chain to set ambitious science-based targets for the future.

A Sustainable Packaging Team has also been established to source new and innovative materials to help reduce plastic content and trial more sustainable packaging solutions for customers.

Ornua is working closely with customers to remove unnecessary packaging from its product range. Ornua Foods in the UK removed 120 tonnes of plastic packaging from products supplied to a leading UK retailer.

**120 tonnes**
**of plastic removed from packaging in the UK**

**15% reduction**
**in emissions since 2016**

**€10 million**
**in operational savings in last three years**

# Our Way of Supporting

First stop – an Irish dairy farm! 11 new graduates join the business as part of Ornua's Graduate Programme

2019 saw record numbers at the Kerrygold Mile in Dublin – this enthusiastic bunch braved what was the worst weather in our 7-year history

Ornua's new *Women in Leadership* programme was launched as part of our Diversity & Belonging Strategy

Food waste reduction was an area of success for Ornua in 2019 – with overall food waste equating to just 0.1% waste as a percentage of total production.

In every possible case, where food is not reaching its intended destination it is redistributed for: processing for secondary customers; to food charities; or into animal feed. Ornua aims to move closer to zero food waste at manufacturing sites in the future.

Ornua employees around the world collaborated with our customers to support food redistribution charities in 2019. Ornua Foods UK supported Tesco in their 10th in-store FareShare Food Collection which is the UK's largest food redistribution charity. The team at Ornua Foods North America worked with *Feed My Starving Children* to pack almost 23,000 meals – enough to feed 63 children for a year.

As part of fostering a diverse and inclusive workforce, Ornua's Diversity & Belonging Working Group focussed on gender diversity in 2019 with the launch of the *Women in Leadership* development programme. The bespoke programme focusses on a range of skills and saw participation from 53 female leaders across businesses in Ireland, the UK, Spain, Germany, North America, Africa, and China.

This year, Ornua continued developing its leaders with 24 senior leaders attending the launch of the *Global Leadership Programme*, and a further 130 employees completing Ornua's leadership courses including *People Leadership Suite* and *Managing Matters* programme. 2019 also saw 11 new graduates join the business.

To underpin its commitment to being a responsible business, Ornua became a member of Business in the Community Ireland and will work closely with this organisation in 2020 to assess and develop our sustainability and CSR efforts bringing us a step closer to becoming industry leaders in these areas.

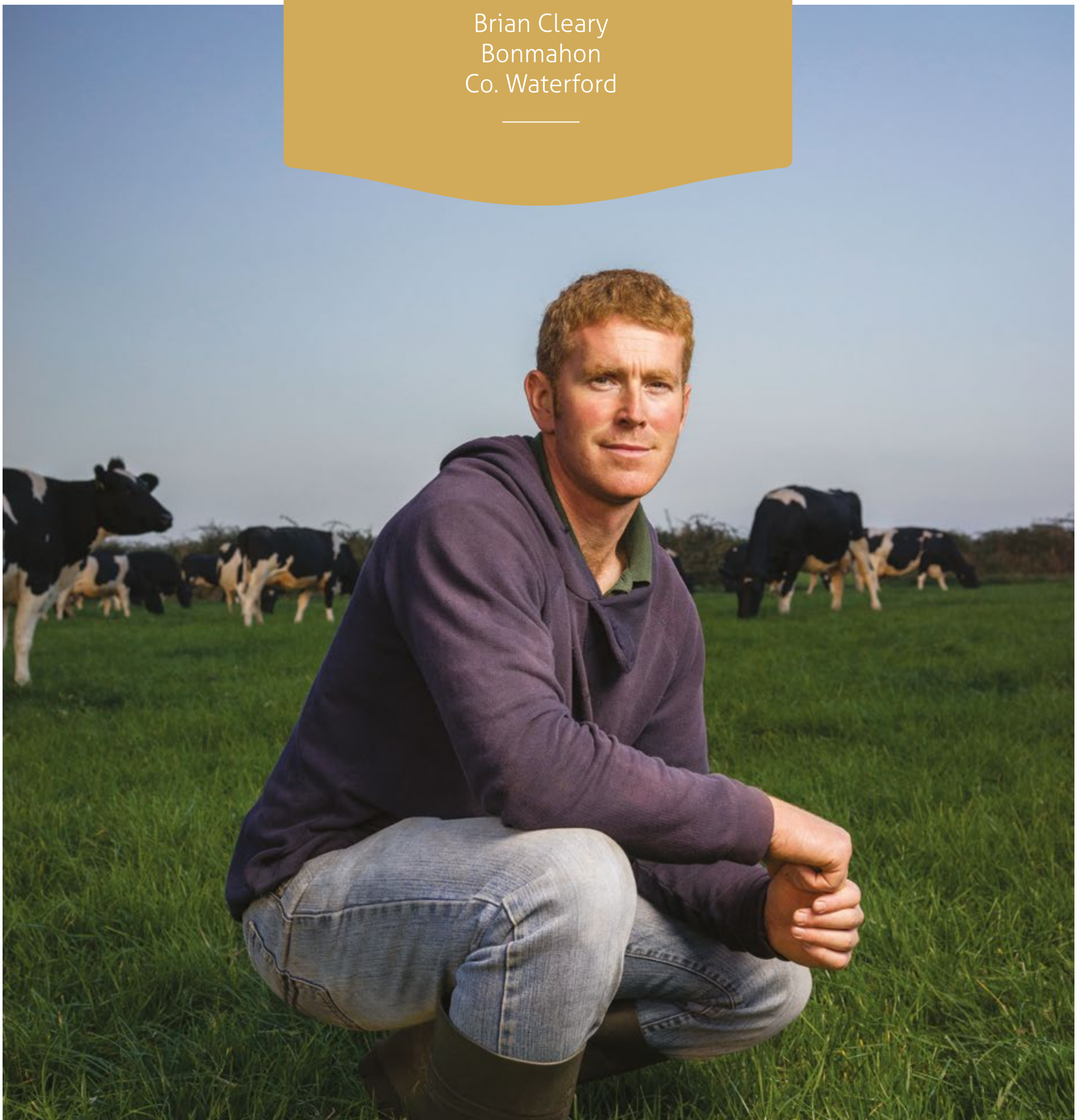
**11%**
**reduction in total accidents compared to 2018**

**65:35**
**M:F gender balance in senior succession pool**

**73%**
**employee engagement rate across Ornua**

— **OUR STORY** —

Brian Cleary
Bonmahon
Co. Waterford



## *Dedication and Passion*

Being an Irish dairy farmer isn't for the faint hearted. It's 365 days – early mornings, late nights and long weekends. For Irish dairy farmers it is not a job, it is a way of life.

The Cleary family farm is located on the beautiful Copper Coast in Bonmahon, Co Waterford. Brian works closely on the farm with his father Jimmy. Brian has farmed all his life, is passionate and dedicated to the land and his animals. He often remarks 'if you love what you're doing, it's not work at all'.

Find out more at kerrygold.com/grassfed

# Financial Statements



**Supplementary Information**

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, manage risk, 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 to 2014, the Board has a number of matters reserved for its consideration.

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

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

The Board held 11 ordinary meetings in 2019 which covered routine Board business.

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

## Board Performance Evaluation

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

## Appointment and Induction

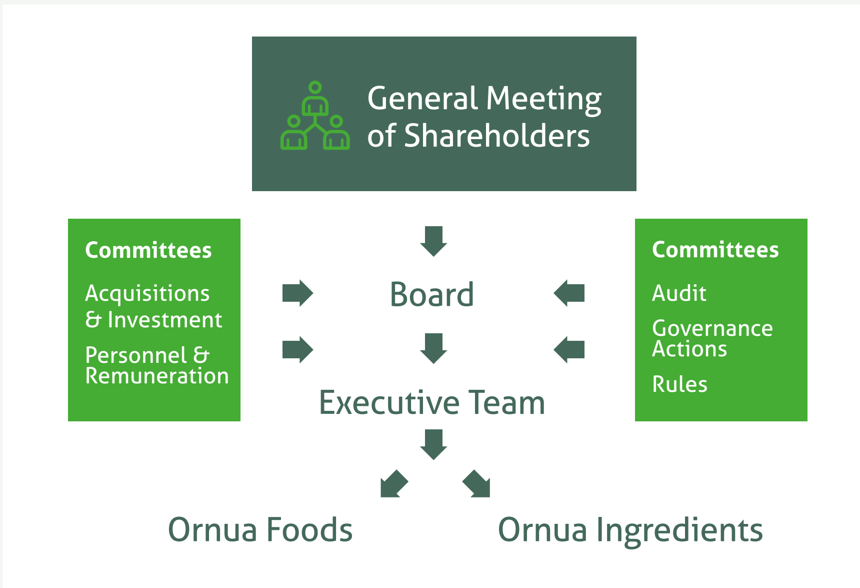
Board members are appointed or elected to serve for one or more terms of four years each. There is no restriction on re-appointment. The Chairman and Vice-Chairman are elected annually by the Board. Newly appointed Board members undergo a structured induction programme involving presentations and site visits to ensure that they have the necessary knowledge and understanding of the Group and its activities. Continued development and training are 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. Following a review of its procedures to manage conflict of interest at Board level, the Board approved in 2019 the Ornua Governance Framework which seeks to address the management of such conflict of interest issues within Ornua as well as competition law compliance.

## Ornua Governance Structure

Ornua
THE HOME OF IRISH DAIRY



# Corporate Governance (continued)

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. 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 facilitate good corporate governance by ensuring that the Board is in full control of the Society's affairs, aware of its legal and other obligations and alert to its responsibilities 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 Directors

The Directors, all of whom are non-executive, are entrusted to bring an independent judgement to bear on all matters of consideration. Their wide-ranging experience, backgrounds and skillsets ensure that they 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 individual Directors informally during the year. These meetings, and other regular informal discussions, create the opportunity for valuable input from all 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 (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.

### Committee for Governance Actions

The Committee for Governance Actions oversees the implementation of the Society's Governance Framework. The objective of the Governance Framework is to monitor situations where members of Ornua are involved in business activity that is in actual or potential competition with Ornua's business. Under that Governance Framework, the Committee for Governance Actions decides what, if any, governance actions are required to address such situations so as to ensure the proper management of conflict of interest issues and competition law compliance.

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

## Principal Risks and Uncertainties

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

### 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 that 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, addition of tariffs on butter and cheese imported into the US, the impact of the coronavirus and international trade disputes generally could have a damaging displacement effect negatively impacting on logistical arrangements 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.

### **Some factors affecting results** (continued)

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 dairy price volatility, the Group has built upon its trading and de-risking expertise to further protect the business.

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

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

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

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

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

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

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

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

# Directors' Report

for the period ended 28 December 2019

The Directors submit their report together with the audited financial statements for the period ended 28 December 2019.

## 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 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 €2.3 billion and has a strong global team of over 2,400 employees. It operates from 10 business units worldwide, including 13 production facilities, and has sales and marketing teams working in-market across all four corners of the globe.

The Group is comprised of two divisions; Ornua Foods and Ornua Ingredients. Ornua Foods is responsible for the marketing and sales of Ornua's consumer brands including Kerrygold, Dubliner, Pilgrims Choice, Kerrygold Avantage, Forto and BEO. 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.

# Directors' Report (continued)

for the period ended 28 December 2019

## 2019 Global Markets

European farm-gate prices remained stable in 2019 in a year of unprecedented political volatility including US-China trade wars, US trade tariffs and Brexit. EU farm-gate milk price increased slightly year-on-year but didn't deviate much from the yearly average.

Irish farm-gate milk prices were relatively stable year-on-year. Milk prices remained above 30 cent per litre for the third year in a row and dairy farm incomes increased through a combination of higher output and lower input costs including feed and fertiliser.

Global milk supply from the major exporters, measured in solids, increased marginally in 2019. On the demand-side, European export trade was strong, but this was offset by weaker domestic consumption with total European demand up 1% year-on-year. Thus, milk supply largely matched dairy demand which facilitated the stability in farm-gate milk prices.

## Financial Performance

Group turnover was up 11.5% year-on-year to €2.3 billion in 2019. Group EBITDA* reached €71.8 million, up 18.7% year-on-year, with an Operating Profit* of €49.1 million, up 21.5% year-on-year. This performance was achieved during a period of sustained investment in the business including the opening of a state-of-the-art production facility in Spain, the first implementation of Ornua's business transformation project in the UK and continued investment in its brand portfolio all over the world.

The Group closed the year with net cash of €22.7 million and a very strong balance sheet with net assets in excess of €565 million.

## Brand Performance

2019 was a momentous year for the Kerrygold brand as it surpassed €1 billion in annual retail sales value, cementing it as Ireland's most successful food brand.

Kerrygold is well-placed to continue its trajectory of growth. In 2019, market share grew in key strategic markets of Germany and the US while new product extensions of its cheddar portfolio were launched in Germany and the US where market share of the category grew to 43% and 20% respectively. This success allowed Ornua to pay a brand premium of €18.5 million to members for Kerrygold product in 2019.

## Ingredients' Performance

2019 was a special year for Ornua Ingredients as it saw the build and opening of its €30 million mozzarella and pizza cheese production facility in Ávila, Spain. The factory was opened two years to the day after it was destroyed by a devastating fire. The passion and commitment of Ornua's teams has allowed the business to deliver a facility that encompasses scale, efficiencies and technologies that secure Ornua's position as a leading pizza cheese supplier.

## Operational Highlights

The Group continues to deliver strong results across the business. Key operational highlights for 2019 include;

- Strong trading performance with Group EBITDA* of €71.8 million, up 18.7% and Operating Profit* of €49.1 million, up 21.5%.
- Kerrygold reaching €1 billion in annual retail sales becoming Ireland's most successful food brand.
- Development of a new 5-year growth plan, Ornua 2025, and global HR strategy to enable its delivery.
- Rebuild and opening of a €30 million state-of-the-art cheese production facility in Ávila, Spain.
- Go-live of the first site under Ornua's business transformation project, Evolve, in the UK.
- Roll out of a new organisation design supporting the drive to simplify the business.
- Carbon, waste and water targets achieved with road map in place for new targets across entire supply chain.
- 53 female leaders in Ireland, UK, Spain, Germany, North America, Africa, and China participated in the Women in Leadership programme.
- New governance structure agreed by the Board with implementation planned for 2020.

*Before exceptional items

# Directors' Report (continued)

for the period ended 28 December 2019

## Health & Safety

Ornua is committed to preventing harm and providing a safe and healthy working environment for its people and partners. In 2019, Ornua experienced an 11% reduction in total accidents compared to 2018. The business is committed to implementing programmes to further develop a culture of safety and health with 53 operational leaders completing Health & Safety training in 2019. 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.

## 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 purpose, vision 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 (2018: €nil).

## Corporate Governance

The Corporate Governance section on pages 27 to 31 sets out the Group's application of corporate governance principles, the Group's governance structure, the Group's system of risk management and internal control and the principal risks and uncertainties facing the Group.

## Auditors

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

## Post Balance Sheet Events

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

# Directors' Report (continued)

for the period ended 28 December 2019

## Board members to End December 2019

| | | |
|---|---|---|
| Aaron Forde (i) (ii) (iii) (iv) | Resigned as Chairman June 2019 | 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 (i) (ii) (iii) (iv) (v) | Appointed Chairman June 2019 | 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 |

Note: Aaron Forde, from Aurivo Co-operative Society Limited, resigned from the Board with effect from 7 January 2020 and Donal Tierney, from Aurivo Co-operative Society Limited, was appointed to the Board with effect from 12 February 2020.

## Committee members as at 28 December 2019

(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
(v) Member of the Governance Actions Committee

## On behalf of the Board of Directors

**Denis Cregan**
Chairman
12 March 2020

**Jason Hawkins**
Director

# Independent Auditors' Report

to the members of Ornua Co-operative Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Ornua Co-operative Limited's Group financial statements:

- give a true and fair view of the Group's assets, liabilities and financial position as at 28 December 2019 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 28 December 2019;
- 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.

### 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 32, 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 dissolve the Group or to cease operations, or have no realistic alternative but to do so.

# Independent Auditors' Report (continued)

to the members of Ornua Co-operative Limited

## Responsibilities for the financial statements and the audit (continued)

### 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
12 March 2020

# Group Income Statement

for the period ended 28 December 2019

| | Notes | 2019 €'000 | 2018 €'000 |
|---|---|---|---|
| **Turnover** | | **2,322,252** | 2,082,059 |
| **Cost of sales** | | **(2,025,401)** | (1,824,823) |
| **Gross profit** | | **296,851** | 257,236 |
| Selling and distribution expenses | | **(165,412)** | (143,827) |
| Administration expenses - excluding amortisation | | **(74,670)** | (65,961) |
| Administration expenses - amortisation | | **(7,677)** | (7,029) |
| **Operating profit before exceptional items** | | **49,092** | 40,419 |
| **Exceptional items** | 4 | **2,088** | (2,728) |
| **Operating profit after exceptional items** | | **51,180** | 37,691 |
| Share of results of associates & joint ventures | 10 | **28** | (500) |
| Interest payable (net) | 5 | **(5,611)** | (3,654) |
| Net interest expense on defined benefit pension schemes | 24 | **(957)** | (910) |
| **Profit on ordinary activities before taxation** | 2 | **44,640** | 32,627 |
| Tax on profit on ordinary activities | 6 | **(10,162)** | (7,544) |
| **Profit for the financial period** | | **34,478** | 25,083 |
| **Profit attributable to:** | | | |
| Owners of the parent | | **35,295** | 25,865 |
| Non-controlling interest | | **(817)** | (782) |
| | | **34,478** | 25,083 |

The notes on pages 43 to 74 form part of these financial statements.

**On behalf of the Board of Directors**

**Denis Cregan**
Chairman
12 March 2020

**Jason Hawkins**
Director

# Group Statement of Comprehensive Income

for the period ended 28 December 2019

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| **Profit for the period** | **34,478** | 25,083 |
| **Other comprehensive income/(expense)** | | |
| - Remeasurement of net defined benefit obligation | **2,821** | (2,394) |
| - Cash flow hedges | | |
| - Change in value of hedging instrument | **(5,903)** | (3,748) |
| - Reclassification to profit and loss | **3,748** | (4,416) |
| - Currency translation differences | **14,283** | 3,254 |
| - Total tax on components of other comprehensive income | **14** | 1,392 |
| **Other comprehensive income/(expense) for the period, net of tax** | **14,963** | (5,912) |
| **Total comprehensive income for the period** | **49,441** | 19,171 |
| **Total comprehensive income/(expense) attributable to:** | | |
| Owners of the parent | **50,296** | 20,001 |
| Non-controlling interest | **(855)** | (830) |
| | **49,441** | 19,171 |

**On behalf of the Board of Directors**

**Denis Cregan**
Chairman
12 March 2020

**Jason Hawkins**
Director

# Group Balance Sheet

as at 28 December 2019

| | Notes | 2019 € '000 | 2018 € '000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 8 | **60,249** | 55,446 |
| Tangible assets | 9 | **222,203** | 202,770 |
| Associates & joint ventures | 10 | **103** | 71 |
| Loans to associates & joint ventures | 10 | **11,559** | 10,898 |
| Other investments | 10 | **845** | 845 |
| | | **294,959** | 270,030 |
| **Current assets** | | | |
| Inventories | 11 | **584,039** | 740,265 |
| Debtors | 12 | **317,743** | 303,405 |
| Restricted cash | 22 | **5,101** | 1,950 |
| Cash and bank balances | 21 | **102,196** | 88,986 |
| | | **1,009,079** | 1,134,606 |
| Creditors: amounts falling due within one year | 13 | **(607,769)** | (624,195) |
| **Net current assets** | | **401,310** | 510,411 |
| **Total assets less current liabilities** | | **696,269** | 780,441 |
| Creditors: amounts falling due after one year | 16 | **(88,333)** | (208,908) |
| Post employment benefits | 24 | **(24,852)** | (41,572) |
| Provision for liabilities | 18 | **(17,595)** | (9,668) |
| **Net assets** | | **565,489** | 520,293 |
| **Capital and reserves** | | | |
| Called up share capital | 19 | **19,624** | 19,607 |
| Revenue reserves | 19 | **540,067** | 490,646 |
| Cash flow hedging reserve | 19 | **(4,893)** | (3,268) |
| Share premium | 19 | **32** | 32 |
| Capital levy account | 19 | **256** | 256 |
| **Members' equity interest (before annual bonus fund and redeemable loan stock)** | | **555,086** | 507,273 |
| Annual bonus fund | 7 | **2,500** | 2,000 |
| Redeemable loan stock | 7 | **9,825** | 12,087 |
| **Members' funds** | | **567,411** | 521,360 |
| Non-controlling interest | | **(1,922)** | (1,067) |
| **Total equity** | | **565,489** | 520,293 |

The notes on pages 43 to 74 form part of these financial statements.

**On behalf of the Board of Directors**

**Denis Cregan**
Chairman
12 March 2020

**Jason Hawkins**
Director

# Group Statement of Changes in Equity

for the period ended 28 December 2019

| | Share Capital | Share Premium | Cash Flow Hedging Reserve | Capital Levy Account | Revenue Reserves | Annual Bonus Fund | Redeemable Loan Stock | Members Equity Interest | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 |
| **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** |
| Profit for the period | – | – | – | – | 35,295 | – | – | 35,295 | (817) | 34,478 |
| Other comprehensive income/(expense) for the period: | | | | | | | | | | |
| Remeasurement of net defined benefit obligation | – | – | – | – | 2,821 | – | – | 2,821 | – | 2,821 |
| Cash flow hedges | | | | | | | | | | |
| - Change in value of hedging instruments | – | – | (5,903) | – | – | – | – | (5,903) | – | (5,903) |
| - Reclassification to profit and loss | – | – | 3,748 | – | – | – | – | 3,748 | – | 3,748 |
| Currency translation differences | – | – | – | – | 14,321 | – | – | 14,321 | (38) | 14,283 |
| Total tax on component of other comprehensive income | – | – | 530 | – | (516) | – | – | 14 | – | 14 |
| Transfer to/from annual bonus fund | – | – | – | – | (2,500) | 500 | 2,000 | – | – | – |
| Redemption of loan stock/Issue of shares (note 7) | 17 | – | – | – | – | – | (4,262) | (4,245) | – | (4,245) |
| **At 28 December 2019** | **19,624** | **32** | **(4,893)** | **256** | **540,067** | **2,500** | **9,825** | **567,411** | **(1,922)** | **565,489** |

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

**On behalf of the Board of Directors**

**Denis Cregan**
Chairman
12 March 2020

**Jason Hawkins**
Director

# Group Cash Flow Statement

for the period ended 28 December 2019

| | Notes | 2019 €'000 | 2018 €'000 |
|---|---|---|---|
| Cash generated from/(used in) operations (after cash exceptional items) | 20 | **204,378** | (52,090) |
| Income tax paid | | **(10,925)** | (10,240) |
| **Net cash inflow/(outflow) from operating activities** | | **193,453** | (62,330) |
| **Cash flows from investing activities** | | | |
| Purchases of tangible assets | 9 | **(31,944)** | (34,153) |
| Purchases of intangible assets | 8 | **(15,415)** | (3,410) |
| Proceeds from sale of tangible assets | | **599** | 201 |
| Purchase of other investments | 10 | **–** | (550) |
| Interest received | | **498** | 196 |
| (Increase)/decrease in restricted cash | 22 | **(3,151)** | 2,018 |
| **Net cash used in investing activities** | | **(49,413)** | (35,698) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(6,135)** | (4,459) |
| (Repayment of)/proceeds from borrowings | | **(120,000)** | 140,000 |
| Payments in respect of loan stock redeemed | | **(4,201)** | (4,652) |
| **Net cash (used in)/generated from financing activities** | | **(130,336)** | 130,889 |
| **Net increase in cash and cash equivalents and bank overdrafts in the period** | | **13,704** | 32,861 |
| **Balance at beginning of period** | | **88,986** | 59,282 |
| Foreign exchange losses | | **(494)** | (3,157) |
| **Cash and cash equivalents at the end of period** | 21 | **102,196** | 88,986 |

**On behalf of the Board of Directors**

**Denis Cregan**
Chairman
12 March 2020

**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 2019 financial statements are for a 52 week period (2018: 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 30 December 2018 to 28 December 2019 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.

### 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.

## 1. Statement of Accounting Policies (Continued)

### e) Exceptional items

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

### f) Inventory

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

### g) Private storage aid income

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

### h) Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes original purchase price, costs directly attributable to bringing the asset to its location and working condition for its intended use. Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Income Statement.

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

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

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

### i) Leased assets

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

### j) Grants

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

## 1. Statement of Accounting Policies (Continued)

### 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 3-8 years.

Other intangibles include supply contracts, customer relationships, trade names and production permits and are amortised over periods ranging from 5-22 years. Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:

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

Acquired software costs are recognised as an intangible asset at their purchase price and amortised over the estimated economic useful life of the asset.

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

### m) Research and development

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

## 1. Statement of Accounting Policies (Continued)

### n) Employee benefits

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

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

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

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

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

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

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

The cost of the defined benefit plan recognised in the Income Statement comprises;

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

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

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.

## 1. Statement of Accounting Policies (Continued)

### 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.

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.

## 1. Statement of Accounting Policies (Continued)

### q) Borrowings and cash and cash equivalents

Interest bearing loans and overdrafts are recognised initially at fair value, which is the proceeds received, net of transaction costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. All borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts, when applicable are shown within borrowings in current liabilities.

### r) Foreign currency translation

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

**(ii) Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges or hedges of net investments in foreign operations.

Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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

| | Average Rates | | Period end Rates | |
|---|---|---|---|---|
| **€ 1 =** | **2019** | **2018** | **2019** | **2018** |
| US$ | 1.1201 | 1.1811 | 1.1175 | 1.1455 |
| GBP£ | 0.8780 | 0.8846 | 0.8548 | 0.9021 |
| SAR | 4.2003 | 4.4267 | 4.1905 | 4.2956 |
| CNY | 7.7346 | 7.8022 | 7.8174 | 7.8779 |

**(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.

## 1. Statement of Accounting Policies (Continued)

### s) Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or Cash Generating Unit (CGU).

The impairment loss recognised is the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows of other assets or groups thereof.

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

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

### t) Share capital and redeemable loan stock

Ordinary shares are classified as equity.

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

### u) Related party transactions

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

### v) Financial instruments

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

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

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures are initially measured at fair value which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the Income Statement except where the investment is in equity instruments that are not 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.

## 1. Statement of Accounting Policies (Continued)

### v) Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements (continued)

## 1. Statement of Accounting Policies (Continued)

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

**Assessment for Impairment - Intangible assets**

Estimates of recoverable amount are a critical accounting judgement in the financial statements. A number of key assumptions have been made as a basis for the impairment tests. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of 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):

| | 2019<br>€'000 | 2018<br>€'000 |
|---|---|---|
| Depreciation (note 9) | **15,017** | 13,096 |
| Amortisation of intangible assets (note 8) | **7,677** | 7,029 |
| Operating lease expense | **2,647** | 2,593 |
| Auditors remuneration - audit fee | **668** | 643 |
| Reclassification of prior period fair value losses/(gains) on derivatives | **3,748** | (4,416) |
| Impairment of trade receivables - charge/(credit) | **656** | (4) |
| Exchange differences - charge | **3,596** | 2,845 |

# Notes to the Financial Statements (continued)

## 3. Employees and remuneration

| | 2019 No. | 2018 No. |
|---|---|---|
| The average number of persons employed by the Group is analysed into the following categories: | | |
| Production | **1,509** | 1,327 |
| Selling and distribution | **421** | 414 |
| Administration | **496** | 438 |
| | **2,426** | 2,179 |

| **The staff costs are comprised of:** | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Wages and salaries* (including termination benefits of €0.5m (2018: €0.4m)) | **106,424** | 95,467 |
| Social welfare costs | **8,974** | 7,702 |
| Pension costs | **3,585** | 3,815 |
| Settlement/curtailment gains/past service costs (net) | **(7,660)** | (1,920) |
| **Staff costs included in operating profit** | **111,323** | 105,064 |
| Pension - other finance costs (net) | **957** | 910 |
| **Total charged to Income Statement** | **112,280** | 105,974 |
| Actuarial (gain)/loss on defined benefit pension schemes (net of deferred taxation) - charged to comprehensive income | **(2,305)** | 2,168 |
| **Total aggregate payroll costs** | **109,975** | 108,142 |

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

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

| **Income Statement** | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Cost of sales | **56,064** | 48,755 |
| Selling and distribution expenses | **23,062** | 22,074 |
| Administration expenses | **39,374** | 35,799 |
| Exceptional items | **(7,177)** | (1,564) |
| **Included in operating profit** | **111,323** | 105,064 |
| Other finance costs (net) | **957** | 910 |
| **Total charged to Income Statement** | **112,280** | 105,974 |
| **Statement of Comprehensive Income** | | |
| Actuarial (gain)/loss on defined benefit pension schemes (net of deferred tax) | **(2,305)** | 2,168 |
| **Total aggregate payroll costs** | **109,975** | 108,142 |

# Notes to the Financial Statements (continued)

## 4. Exceptional items

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Restructuring costs (i) | **(2,272)** | (742) |
| Settlement gain (2018: curtailment gain) (ii) | **7,660** | 2,578 |
| Net cost in relation to fire at Spanish plant (iii) | **(251)** | – |
| Impairment of intangible assets (iv) | **(4,087)** | – |
| Disposal of tangible assets (v) | **1,038** | – |
| Past service cost (vi) | **–** | (658) |
| Impairment of investments in and loans to associates & joint ventures (vii) | **–** | (3,906) |
| | **2,088** | (2,728) |

### 2019

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

(ii) This non-cash settlement gain arose as a result of certain employees transferring their benefits from the Irish Defined Benefit Plan to a defined contribution plan in January 2019. As part of this transfer the Group made a one-off cash contribution of €6.3m to the Irish Defined Benefit Plan.

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

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

As outlined in previous years the Directors considered that the insurance policies in place provided 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 incurred to recover sales as a result of the fire. During 2019 the Group made a settlement of its insurance claim arising as a result of the fire and the net cost to the Group taking account of asset write downs, business interruption costs incurred net of insurance proceeds received was €0.3m.

(iv) The Group carried out an impairment review of certain intangible assets, by comparing the asset's recoverable amount to its carrying value and as a result an impairment of €4.1m was recognised (note 8). This impairment was a result of the competitive nature of the specific market which resulted in the recoverable amount of certain intangibles being less than their carrying amount.

(v) During the period the Group disposed of some tangible assets at a profit.

## 4. Exceptional items (Continued)

### 2018

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

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

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

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

Although the insurance companies are still assessing the quantum of damages, in view of the information available, the Company's Directors consider that the insurance policies in place provide sufficient cover for both the material damages at the facilities, including plant & equipment and inventories, and loss of earnings brought about by the fall in sales and the additional costs that the Company may incur to recover sales as a result of the fire, for an 18 month period as from the date of the fire.

As the ultimate insurance proceeds has not been quantified to a high degree of certainty, a no gain/no loss position has been recorded in the 2018 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) 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.

(vii) 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).

## 5. Interest payable (net)

| | 2019<br>€'000 | 2018<br>€'000 |
|---|---|---|
| Interest payable on bank loans and overdrafts : | | |
| Repayable within 5 years, other than by instalments | **6,496** | 4,819 |
| Interest receivable | **(885)** | (1,165) |
| | **5,611** | 3,654 |

## 6. Tax on profit on ordinary activities

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| **Analysis of taxation charge in the period** | | |
| **Current tax** | | |
| Irish corporation tax on the profit for the period | **167** | 2 |
| | **167** | 2 |
| **Foreign tax** | | |
| Foreign corporation tax on profit for the period | **8,124** | 9,899 |
| Adjustments in respect of previous periods | **(486)** | (3,802) |
| | **7,638** | 6,097 |
| **Total current tax** | **7,805** | 6,099 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **2,357** | 1,499 |
| Impact of change in tax rates | **–** | (54) |
| **Tax on profit on ordinary activities** | **10,162** | 7,544 |
| **Tax income included in Other Comprehensive Income** | **(14)** | (1,392) |

**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.

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **44,640** | 32,627 |
| Profit on ordinary activities at the standard rate of corporation tax in Ireland of 12.5% | **5,580** | 4,078 |
| Effects of: | | |
| Foreign rates of tax different from Irish rates | **3,994** | 6,003 |
| (Utilisation)/non utilisation of tax losses (net) | **(1,731)** | 1,573 |
| Expenses/income not deductible/taxable (net) | **1,041** | 269 |
| Movement in other differences | **1,764** | (577) |
| Adjustments in respect of prior periods | **(486)** | (3,802) |
| **Total tax** | **10,162** | 7,544 |

There were no significant changes during 2019 in the tax rates applying to the Group's subsidiaries.

## 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 2019 is €2.5m (2018 : €2.0m).

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

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

During the period, the Board decided to redeem loan stock to the value of €4.2m (2018 : €4.5m) issued in respect of the 2014 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 €4.2m in 2019 (2018 : €4.7m).

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

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| At beginning of period | **12,087** | 16,542 |
| Transferred from the annual bonus fund | **2,000** | – |
| Redemption of loan stock/issue of share capital | **(4,262)** | (4,455) |
| **At end of period** | **9,825** | 12,087 |

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| (b) Total bonuses payable | | |
| Annual cash bonus (charged to operating profit) | **23,500** | 17,000 |
| Redeemable loan stock (transfer to annual bonus fund) | **2,500** | 2,000 |
| | **26,000** | 19,000 |

## 8. Intangible assets

| | Goodwill 2019 €'000 | Other Intangibles 2019 €'000 | Computer Software 2019 €'000 | Total 2019 €'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of period | 79,947 | 28,655 | 9,457 | 118,059 |
| Additions in the period | – | 2,294 | 13,121 | 15,415 |
| Disposals | – | – | (334) | (334) |
| Translation adjustment | 1,478 | 786 | 111 | 2,375 |
| | 81,425 | 31,735 | 22,355 | 135,515 |
| **Amortisation** | | | | |
| At beginning of period | 46,412 | 13,080 | 3,121 | 62,613 |
| Amortised during the period | 3,758 | 2,350 | 1,569 | 7,677 |
| Impairment (note 4) | 2,247 | 1,840 | – | 4,087 |
| Disposals | – | – | (264) | (264) |
| Translation adjustment | 635 | 454 | 64 | 1,153 |
| | 53,052 | 17,724 | 4,490 | 75,266 |
| **Net book amount** | | | | |
| **At end of period** | **28,373** | **14,011** | **17,865** | **60,249** |
| **At beginning of period** | **33,535** | **15,575** | **6,336** | **55,446** |

The Group expensed €4.4m in research and development expenditure in the period (2018: €4.7m). Amortisation is classified within administration expenses in the Income Statement. The remaining amortisation period of the goodwill ranges from 6-12 years. The remaining amortisation period of other intangibles ranges from 4-17 years.

## 9. Tangible assets

| | Land and Buildings | | | | |
|---|---|---|---|---|---|
| | Freehold Land 2019 €'000 | Freehold Buildings 2019 €'000 | Leasehold Buildings 2019 €'000 | Plant Equipment and Vehicles 2019 €'000 | Total 2019 €'000 |
| **Cost** | | | | | |
| At beginning of period | 7,641 | 120,389 | 128 | 185,595 | 313,753 |
| Reclassification* | – | 5,473 | 67 | (5,540) | – |
| Additions in the period | – | 10,290 | – | 21,654 | 31,944 |
| Disposals in the period | (1,063) | (4,753) | – | (8,599) | (14,415) |
| Translation adjustment | 112 | 3,140 | 7 | 5,018 | 8,277 |
| | 6,690 | 134,539 | 202 | 198,128 | 339,559 |
| **Depreciation** | | | | | |
| At beginning of period | – | 29,591 | 124 | 81,268 | 110,983 |
| Charge for the period | – | 3,209 | 8 | 11,800 | 15,017 |
| Disposals in the period | – | (4,061) | – | (6,219) | (10,280) |
| Impairment in the period | – | – | – | (1,191) | (1,191) |
| Translation adjustment | – | 239 | 13 | 2,575 | 2,827 |
| | – | 28,978 | 145 | 88,233 | 117,356 |
| **Net book amount** | | | | | |
| **At end of period** | **6,690** | **105,561** | **57** | **109,895** | **222,203** |
| **At beginning of period** | **7,641** | **90,798** | **4** | **104,327** | **202,770** |

*Work in progress items included in plant & equipment during construction and transferred out on completion.
The buildings, plant, equipment and vehicles are insured at a value of €414.1m (2018: €327.3m). €10m (2018: €10m) of tangible assets has been pledged as security.

## 10. Associates, joint ventures & other investments

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| **Associates & joint ventures** | | |
| At beginning of period | **71** | 1,808 |
| Share of profit/(loss) after tax during the period | **28** | (500) |
| Impairment (note 4) | **–** | (1,195) |
| Translation adjustment | **4** | (42) |
| **At end of period** | **103** | 71 |

| Loans to associates & joint ventures | 2019 €'000 | 2018 €'000 |
|---|---|---|
| At beginning of period | **10,898** | 12,139 |
| Additions in the period | **387** | 970 |
| Impairment (note 4) | **–** | (2,711) |
| Translation adjustment | **274** | 500 |
| **At end of period** | **11,559** | 10,898 |

| Other investments | 2019 €'000 | 2018 €'000 |
|---|---|---|
| At beginning of period | **845** | 295 |
| Additions in the period | **–** | 550 |
| **At end of period** | **845** | 845 |

## 11. Inventories

Inventories at period end primarily consist of finished goods for consumption. The amount of inventories recognised as an expense in 2019 was €1,880m (2018: €1,721m).

Impairments of inventories recognised within cost of sales in 2019 were €4.0m (2018: reversal of impairments of €11.0m).

## 12. Debtors

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| **Due within one year:** | | |
| Trade debtors (i) (iii) | **278,679** | 258,573 |
| Prepayments | **13,607** | 12,135 |
| Derivative financial instruments | **334** | 1,175 |
| Corporation tax debtors | **2,121** | 224 |
| Other debtors | **17,520** | 24,036 |
| | **312,261** | 296,143 |
| **Due after one year:** | | |
| Deferred taxation (ii) | **5,482** | 7,262 |
| | **317,743** | 303,405 |
| **Deferred tax arising from:** | | |
| Accelerated capital allowances | **(1,999)** | 665 |
| Derivative financial instruments | **1,011** | 481 |
| Post employment benefits | **3,979** | 6,033 |
| Other timing differences | **2,491** | 83 |
| | **5,482** | 7,262 |

(i) Trade debtors are stated net of a provision for impairment of €3.0m (2018: €2.3m).

(ii) The Group has not recognised deferred tax assets of €4.4m (2018: €6.8m) on the basis that there is insufficient evidence that these assets will be recoverable. Deferred tax assets are expected to substantially reverse in greater than one year.

(iii) The Group also manages credit risk of trade debtors through the use of a number of sales of debtor arrangements. Under the terms of these agreements the Group has transferred substantially all of the credit risks which are subject to these agreements. The Group retains a minor element of late payment risk. Accordingly €112.8m (2018: €81.1m) of trade debtors have been derecognised at period-end.

# Notes to the Financial Statements (continued)

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

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Trade creditors | **287,889** | 238,626 |
| Amount due to factor (note 15) | **168,074** | 218,858 |
| Derivative financial instruments | **10,004** | 7,240 |
| Accruals | **127,875** | 148,242 |
| Redeemable loan stock | **2,058** | 2,080 |
| Option liability* | **1,851** | – |
| Taxation creditors (note 14) | **7,344** | 6,475 |
| Other creditors | **2,674** | 2,674 |
| | **607,769** | 624,195 |

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

## 14. Taxation creditors

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Corporation tax | **1,755** | 3,140 |
| PAYE | **1,911** | 1,467 |
| PRSI | **1,141** | 411 |
| VAT | **2,537** | 1,457 |
| | **7,344** | 6,475 |

# Notes to the Financial Statements (continued)

## 15. Loans

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Amounts falling due after one year (loans) | **79,455** | 199,095 |

In November 2017, the Group entered into a five year syndicated financing agreement. Current facilities available under this agreement are €280m.

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 (2019: €168.1m, 2018: €218.9m) to Rabobank.

## 16. Creditors : amounts falling due after one year

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Redeemable loan stock | **4,026** | 3,960 |
| Deferred taxation (i) | **4,852** | 4,204 |
| Option liability | **–** | 1,649 |
| Bank loans (note 15) | **79,455** | 199,095 |
| | **88,333** | 208,908 |
| **(i) Deferred tax arising from :** | | |
| Accelerated capital allowances | **4,440** | 6,112 |
| Other timing differences | **412** | (1,908) |
| | **4,852** | 4,204 |

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

## 17. Financial instruments

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| The Group has the following financial instruments: | | |
| **Financial assets at fair value through profit or loss** | | |
| Derivative financial instruments (i) | **334** | 1,175 |
| **Financial assets that are debt instruments measured at amortised cost** | | |
| Trade debtors | **278,679** | 258,573 |
| Other debtors | **17,520** | 24,036 |
| Investment in associates & joint ventures | **103** | 71 |
| Preferred shares in associate (ii) | **11,051** | 10,403 |
| Loans to joint venture | **508** | 495 |
| | **307,861** | 293,578 |
| **Cash & bank balances** | **102,196** | 88,986 |
| **Financial assets that are equity instruments measured at cost less impairment** | | |
| Other investments | **845** | 845 |
| **Financial liabilities measured at fair value through profit or loss** | | |
| Derivative financial instruments (i) | **10,004** | 7,240 |
| Call option liabilities (iii) | **1,851** | 1,649 |
| | **11,855** | 8,889 |
| **Financial liabilities measured at amortised cost** | | |
| Trade creditors | **287,889** | 238,626 |
| Amount due to factor (note 13) | **168,074** | 218,858 |
| Accruals | **127,875** | 148,242 |
| Redeemable loan stock | **6,084** | 6,040 |
| Other creditors | **2,674** | 2,674 |
| Loans (note 15) | **79,455** | 199,095 |
| | **672,051** | 813,535 |

## 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 28 December 2019 the contracts outstanding have an average maturity of 5 months (2018: 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 are listed in the above tables. During 2019, a hedging gain (net of taxation) of €4.3m (2018: loss of €3.3m) 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 2019 a charge of €Nil (2018: €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**

These preferred shares were acquired in 2015 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 13).

## 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 | 5,842 | 893 | 2,933 | 9,668 |
| Provided during the period | 11,134 | – | 3,830 | 14,964 |
| Utilised during the period | (5,842) | – | (1,218) | (7,060) |
| Translation adjustment | – | 23 | – | 23 |
| **At end of period** | **11,134** | **916** | **5,545** | **17,595** |

(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

| | 2019 No. of Shares | 2019 €'000 | 2018 No. of Shares | 2018 €'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 | **1,690,106** | **1,690** | 1,672,843 | 1,673 |
| Deferred ordinary shares of €1 each | **17,916,961** | **17,917** | 17,916,961 | 17,917 |
| | | **19,624** | | 19,607 |

| **The number of issued and fully paid ordinary shares was as follows:** | 2019 No. of Shares €'000 | 2018 No. of Shares €'000 |
|---|---|---|
| At beginning of period | **19,607** | 19,607 |
| Issue of shares | **17** | – |
| At end of period | **19,624** | 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)

## 20. Net cash inflow from operations

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Operating surplus before exceptional items | **49,092** | 40,419 |
| Depreciation of tangible assets (note 9) | **15,017** | 13,096 |
| Amortisation of intangible assets (note 8) | **7,677** | 7,029 |
| Decrease/(increase) in inventories | **163,484** | (185,897) |
| (Increase)/decrease in debtors | **(6,026)** | 35,847 |
| (Decrease)/increase in creditors | **(15,509)** | 39,530 |
| Post retirement liabilities | **(8,025)** | (1,860) |
| **Cash generated from/(used in) operations (before cash exceptional items)** | **205,710** | (51,836) |
| Exceptional expenditure | **(1,332)** | (254) |
| **Cash generated from/(used in) operations (after cash exceptional items)** | **204,378** | (52,090) |

## 21. Cash and cash equivalents and net debt

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Cash and cash equivalents consist of: | | |
| Cash and bank balances | **102,196** | 88,986 |
| Loans (note 15) | **(79,455)** | (199,095) |
| **Net cash/(debt)** | **22,741** | (110,109) |

## 22. Restricted cash

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Restricted cash on deposit | **5,101** | 1,950 |

Deposits of €5.1m (2018: €2.0m) were held at period end within the Group's insurance company and are restricted for use by the Group's insurance company.

## 23. Capital commitments

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Commitments for which contracts have been placed | **6,025** | 18,730 |
| Commitments approved but not contracted for | **37,266** | 42,567 |

## 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 credit of €6.5m (2018: charge of €1.0m) of which €0.2m (2018: €2.0m) has been charged against operating profit before exceptional items and €7.7m (2018: €1.9m) has been credited to exceptional items and €1.0m has been charged within other finance costs (2018 : €0.9m).

Contributions to defined contribution pension schemes in the period were €3.4m (2018: €1.7m).

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 2018 using the projected unit valuation method. Valuations as at 28 December 2019 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 28 December 2019.

The Irish scheme closed to future accrual in 2018. It has been agreed that the employer contributes €1.0m annually to the Irish scheme. The main other scheme closed to future accrual in 2019 and it has been agreed that the employer will contribute €0.8m annually to this scheme.

During 2019, a number of employees transferred out of the Irish Defined Benefit Plan into a defined contribution plan resulting in a settlement gain of €7.7 million. As part of the transfer, the company made a one-off cash contribution of €6.3m to the Irish Defined Benefit Plan.

### Financial assumptions

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

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | Irish Scheme | | Other Schemes | |
| | % | % | % | % |
| Inflation rate | **1.40** | 1.65 | **2.00** | 2.20 |
| Salary rate increases | **2.40** | 2.65 | **2.50** | 2.90 |
| Pension payment increases | **1.40** | 1.65 | **2.10** | 2.20 |
| Discount rate | **1.40** | 2.20 | **2.00** | 2.80 |

In valuing the liabilities of the pension funds at 28 December 2019, 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 2019/2018 | | Other Schemes 2019/2018 | |
|---|---|---|---|---|
| **Current pensioner aged 65** | 23/24 years male | 25/26 years female | 21/22 years male | 24/24 years female |
| **Future retiree* upon reaching 65** | 26/27years male | 28/29 years female | 23/24 years male | 26/26 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.

## 24. Post employment benefits (Continued)

| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|---|---|
| | Irish Scheme | | Other Schemes | | Total | |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Equities | **27,401** | 29,049 | **15,816** | 11,552 | **43,217** | 40,601 |
| Bonds | **29,607** | 21,970 | **22,113** | 19,834 | **51,720** | 41,804 |
| Property | **2,291** | 2,235 | **504** | 550 | **2,795** | 2,785 |
| Other | **28,992** | 34,254 | **8,725** | 7,958 | **37,717** | 42,212 |
| | **88,291** | 87,508 | **47,158** | 39,894 | **135,449** | 127,402 |
| Actuarial value of liabilities | **(100,310)** | (116,446) | **(59,991)** | (52,528) | **(160,301)** | (168,974) |
| Net deficit in the schemes | **(12,019)** | (28,938) | **(12,833)** | (12,634) | **(24,852)** | (41,572) |

| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|---|---|
| | 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 | **14** | 1,440 | **230** | 548 | **244** | 1,988 |
| Past service cost (note 4) | **–** | – | **–** | 658 | **–** | 658 |
| Settlement/curtailment gains (note 4) | **(7,660)** | (2,578) | **–** | – | **(7,660)** | (2,578) |
| Net interest expense | **615** | 585 | **342** | 325 | **957** | 910 |
| | **(7,031)** | (553) | **572** | **1,531** | **(6,459)** | 978 |

## 24. Post employment benefits (Continued)

| Movement in benefit obligations during the period | Irish Scheme 2019 €'000 | Other Schemes 2019 €'000 | Total 2019 €'000 |
|---|---|---|---|
| Benefit obligations at beginning of period | 116,446 | 52,528 | 168,974 |
| Current service cost | 14 | 230 | 244 |
| Settlement gain | (7,660) | – | (7,660) |
| Interest expense | 2,505 | 1,454 | 3,959 |
| Plan participant's contributions | – | 51 | 51 |
| Settlement payments from plan assets | (13,900) | – | (13,900) |
| Actuarial loss | 5,814 | 5,222 | 11,036 |
| Benefits paid from plan | (2,909) | (2,396) | (5,305) |
| Exchange adjustment | – | 2,902 | 2,902 |
| **Benefit obligations at end of period** | **100,310** | **59,991** | **160,301** |
| **Movement in plan assets during the period** | | | |
| Fair value of plan assets at beginning of period | 87,508 | 39,894 | 127,402 |
| Interest income | 1,890 | 1,112 | 3,002 |
| Remeasurement gains/(losses): | | | |
| Return on plan assets excluding interest income | 8,388 | 5,469 | 13,857 |
| Employer's contributions | 7,314 | 711 | 8,025 |
| Plan participant's contributions | – | 51 | 51 |
| Settlement payments from plan assets | (13,900) | – | (13,900) |
| Benefits paid from plan | (2,909) | (2,396) | (5,305) |
| Exchange adjustment | – | 2,317 | 2,317 |
| **Fair value of plan assets at end of period** | **88,291** | **47,158** | **135,449** |
| **Deficit in schemes** | **(12,019)** | **(12,833)** | **(24,852)** |
| **Actual return on plan assets** | **10,278** | **6,581** | **16,859** |

## 25. Financial commitments

**a) Operating leases**

At 28 December 2019, the Group had future minimum payments under non-cancellable operating leases as follows:

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Payments due: | | |
| Not later than 1 year | **2,006** | 2,540 |
| Later than 1 year and not later than 5 years | **5,531** | 5,660 |
| Later than 5 years | **7,230** | 7,992 |
| | **14,767** | 16,192 |

**b) Bank guarantees**

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

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Bank guarantees | **21,304** | 11,611 |

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.

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Forward foreign currency/commodity contracts | **385,345** | 418,147 |

## 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 28 December 2019 amounted to €33.6m (2018: €26.1m) and purchases from members amounted to €1,139.6m (2018: €1,280.0m). Amounts receivable from and payable to members arising from the aforementioned sales and purchases transactions as at the balance sheet date are €8.4m (2018: €14.0m) and €92.3m (2018: €108.6m) respectively. There are other payable balances of €2.7m to members (2018: €2.7m).

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.

### 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, charged to the 2019 Group Income Statement (but not necessarily paid in 2019), was as follows:

| | 2019 €'000 | 2018 €'000 |
|---|---|---|
| Total Directors fees (15 in 2019 & 15 in 2018) | **556** | 562 |
| Global Executive Remuneration (6 Executives in 2019 & 7 in 2018): | | |
| Basic salary | **1,918** | 2,111 |
| Performance related bonus | **815** | 693 |
| LTIP - Paid during the year | **267** | - |
| Other benefits | **235** | 251 |
| Employers pension contribution | **279** | 295 |
| Employers PRSI | **582** | 329 |
| | **4,096** | 3,679 |
| LTIP - Adjustment to provision during the year * | **1,056** | 327 |
| **Total Fees and Remuneration for key management personnel** | **5,708** | 4,568 |

*LTIP - Adjustment to provision during the year represents the adjustment to the LTIP provision and does not represent the amount paid in 2019. The total amount expected to be paid out under the LTIP 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 three years. The adjustment to the LTIP provision in 2019 is calculated as one-third of the expected pay-out (based on a number of assumptions that may or may not eventuate) in respect of awards granted in 2017, 2018 and 2019 plus an adjustment for any impact on the provision at 29 December 2018 as a result of updated assumptions in 2019. Further details on the LTIP are included in Note 27.

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 €3.2m  (2018: charge of €0.9m) within employment costs in relation to the scheme, and the obligations recognised within liabilities at period end amounts to €4.6m (2018: €2.0m).

# 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 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 dairy 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 |

## 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 28 December 2019, 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 12 March 2020.

# Board of Directors & Executive

## Board of Directors*

Denis Cregan
**Chairman**

Pat Sheahan
**Vice-Chairman**

Jim Bergin

John Daly

Peter Fleming

Aaron Forde

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**

Gilles Fellens
**Chief Growth Officer**

Róisín Hennerty
**Managing Director Global Foods Division**

Gisbert Kügler
**CEO Ornua Deutschland (retired December 2019)**

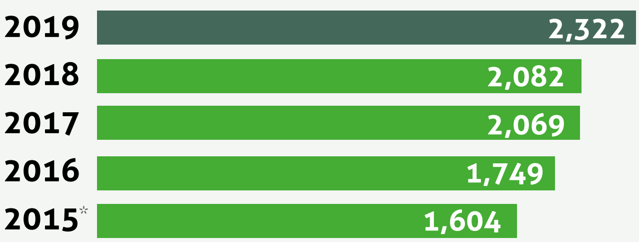
## Company Secretary*

John McRedmond
**Company Secretary & General Counsel**

*As at 28 December 2019

# Group Five Year Review

## 2019 Group Turnover – €2,322 million




## 2019 Members' Funds – €567 million


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

| | 2015<br>€ '000 | 2016<br>€ '000 | 2017<br>€ '000 | 2018<br>€ '000 | 2019<br>€ '000 |
|---|---|---|---|---|---|
| **a) Historical values** | | | | | |
| Turnover | 2,543,413 | 1,749,367 | 2,069,219 | 2,082,059 | 2,322,252 |
| EBITDA | 58,814 | 43,082 | 53,830 | 60,544 | 71,786 |
| Operating profit | 34,104 | 26,611 | 35,245 | 40,419 | 49,092 |
| Profit before taxation and exceptional items | 28,265 | 22,556 | 31,170 | 35,355 | 42,552 |
| Net debt/(cash) | 17,274 | (57,155) | (310) | 110,109 | (22,741) |
| Members' funds | 525,821 | 502,439 | 505,814 | 521,360 | 567,411 |

| | | | | | |
|---|---|---|---|---|---|
| **b) Financial ratios** | | | | | |
| EBITDA as % of turnover | 2.3% | 2.5% | 2.6% | 2.9% | 3.1% |
| Operating profit as % of turnover | 1.3% | 1.5% | 1.7% | 1.9% | 2.1% |
| Leverage (Net debt/(cash)/EBITDA) (times) | 0.3x | (1.3x) | (0.01x) | 1.8X | (0.3x) |
| Interest Cover (EBITDA/Interest Payable) (times) | 12.6x | 11.6x | 17.6x | 16.6X | 12.8x |

# Irish Product Utilisation Overview

## Total Irish Milk Supply (million litres)

| | 2019 | 2018 |
|---|---|---|
| January | 175 | 162 |
| February | 304 | 294 |
| March | 709 | 628 |
| April | 953 | 823 |
| May | 1,072 | 993 |
| June | 1,001 | 925 |
| July | 943 | 853 |
| August | 843 | 824 |
| September | 722 | 722 |
| October | 605 | 642 |
| November | 419 | 461 |
| December | 244 | 259 |
| **Total** | **7,989** | **7,586** |

Source: CSO

## Total Irish Product Output (tonnes)

| | 2019 | 2018 |
|---|---|---|
| Butter | 251,100 | 237,800 |
| Cheese | 230,000* | 224,100 |
| SMP | 142,500 | 133,800 |

Source: CSO/Ornua

*estimate

Ornua

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