dairygold

Golden Valleys, Growing Naturally

Annual Report and Financial Statements 2016

KEY HIGHLIGHTS

MILK VOLUME
1.2bn
LITRES
+4.1%

€17.5
MILLION
OPERATING PROFIT

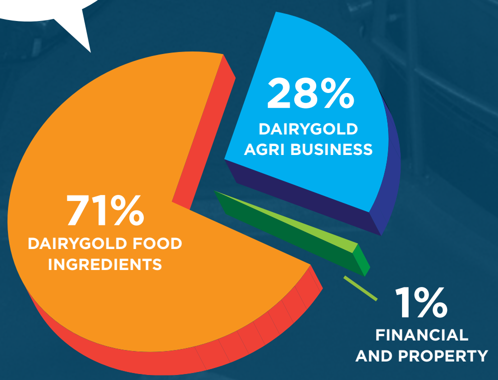
MILK PRICE SUPPORT
CIRCA
€25 million

NET INVESTMENT OF
€15
MILLION

CIRCA **€200 MILLION**
IN LAST **6 YEARS**

NET ASSET VALUE
€307.6
MILLION

REVENUE
€756
MILLION



DAIRYGOLD FOOD INGREDIENTS
ROUTE TO MARKET

Contents

James Lynch
Chairman

CHAIRMAN'S STATEMENT

For the Irish dairy sector, 2016 was an extremely difficult year. Very challenging market conditions continued from 2015 for the first six months of the year, while from July onwards a more positive market emerged based on reduced global milk supplies, which stimulated a slow recovery in market prices.

As a Co-Operative, our everyday goal is to maximise returns to our Member Suppliers. Dairygold through significant milk and grain price support, reduced the impact of market volatility on its farmer suppliers while maintaining a focus on the ongoing development of the business.

Pictured at the tree planting ceremony, as part of their visit to the site of the proposed new Jarlsberg® cheese production facility in Mogeely, Co. Cork are Michael Creed, Minister for Agriculture, Food and the Marine and Jon Georg Dale, Norwegian Agriculture Minister, with Hanne Refsholt, TINE SA Chief Executive, Trond Reierstad, TINE SA Chairman, James Lynch, Chairman and Jim Woulfe, Chief Executive.

HIGHLIGHTS:

- Delivered a strong operational performance despite the significant market challenges throughout the year. The Society leveraged its financial strength to support milk and grain prices while still delivering a satisfactory financial result.
- The Speciality Dairy Nutrition and Ingredients Complex at our regenerated Mallow processing facility was successfully completed on schedule and within budget.
- Announced a partnership with Norway's largest farmer owned dairy co-operative, TINE SA, for the proposed development of a new Jarlsberg® cheese production facility in Mogeely.
- Collaborated with Ornua on the establishment of its Kerrygold Centre of Excellence at Dairygold's Castlefarm Dairy Campus. This facility is the centre for Kerrygold Butter production in Ireland, new product development, innovation and customer support.
- Implemented Voluntary Fixed Milk Price Schemes, designed to cushion the impact of market volatility.
- Negotiated lower cost loans and credit facilities for the benefit of Milk Suppliers who required funding or credit facilities for their farm business.
- Continued to encourage Milk Supplier participation in the Bord Bia Sustainable Dairy Assurance Scheme (SDAS) in which over 97% of Milk Suppliers are now participating.
- In its first year, the Loyalty Reward Scheme generated cash payments of €1 million to customers and Members with €1 million allocated for the issue of bonus shares to Members.
- Operated a second year of the highly successful 'Wrap it Pink' initiative raising €17,500 for the Irish Cancer Society.

Pictured at the launch of Dairygold's 2016 Wrap it Pink campaign in partnership with the Irish Cancer Society are Gillian Foley, Retail Marketing Manager and Suzie Cunningham, Corporate Partnerships Manager, Irish Cancer Society.

MILK PRODUCTION

Favourable weather conditions throughout the year provided good grass growth and utilisation. This helped to drive milk production expansion at farm level despite the poor returns in the year. In 2016 Dairygold processed 1,205 million litres of milk from Members, which represented a 4.1% increase on 2015.

The post quota milk production expansion across the Dairygold catchment area has exceeded original forecasts with the Society witnessing a 23.6% increase in milk volumes for 2016 when compared to 2014. Milk Supplier participation in our milk volume forecasting has allowed the Society manage a smooth transition to the post quota operation and remains a critical tool to enable the business maximise returns.

A combination of extra milk volumes and the investments across our processing sites, helped Dairygold to deliver an efficient and strong operational performance despite the significant market challenges.

MEMBER SUPPORT

In response to the continued dairy market volatility experienced during the year, Dairygold supported milk price, by circa €25 million, to ensure our Members were not exposed to the full impact of poor dairy market returns. From July onwards the Board sought to recognise the dairy market recovery with a total of seven milk price increases in anticipation of continuing improvement in market returns.

The Board ensured that support was given to our Grain Suppliers against the impact of the ongoing depressed international grain market after a very difficult harvest.

In addition, the Board maintained its focus on identifying and introducing farmer support measures to offset the impact of volatile dairy markets.

Voluntary Fixed Milk Price Schemes were introduced to give participating Suppliers the opportunity to help manage milk price volatility and deliver price certainty on a fixed volume of milk deliveries:

- Scheme I, offering 30.20 cents per litre ("cpl") including VAT and full bonus payments at 3.30% Protein and 3.60% Butterfat (33.5 cpl at the Society's average constituents) based on a volume of up to 15% of 2015 annual supply for the period March 2016 to August 2017 excluding December 2016 and January 2017.

- Scheme II, offering 30.75 cpl including VAT and full bonus payments at 3.30% Protein and 3.60% Butterfat (34.05 cpl at the Society's average constituents) based on a volume of up to 10% of 2016 annual supply for each of the 3 periods: March to November 2017, February to November 2018 and February to November 2019.

The Board negotiated lower cost loans and credit facilities with both Bank of Ireland and Allied Irish Banks plc for the benefit of Milk Suppliers who required funding or credit facilities for their farm business. These measures worked alongside the existing Extended Credit and Loyalty Reward Schemes.

The Loyalty Reward Scheme, in its first year, generated cash payments of €1 million to customers and Members with €1 million allocated for the issue of bonus shares to Members. The Loyalty Reward Scheme is designed to reward customers and Members who trade with and/or supply milk to the Society.

COLLABORATION

Dairygold Milk Suppliers produce quality milk and it is our responsibility to process that milk efficiently. Our investments in state of the art processing facilities at Mogeely, Clonmel Road, Castlefarm and Mallow are helping to continuously improve our performance in that regard.

Dairygold is building on its strong strategic partnerships with major global food companies to find synergies and efficiencies that will further enhance our processing capability.

This focus was a key consideration for Ornua in its decision to centralise its Kerrygold butter production at our Castlefarm Dairy Campus. Ornua's Centre of Excellence for Kerrygold Butter was officially opened in September and is a model in industry partnership to achieve cost effective and sustainable dairy processing.

A similar venture is being entered into with Norway's largest dairy processor, TINE SA, for the relocation of the production of its well known Jarlsberg® cheese brand at our speciality cheese manufacturing facility in Mogeely. The relocation decision is driven by the imminent removal of Norwegian Government export subsidies along with the efficient production, expertise and capability offered by Dairygold, signified by our existing 10 year relationship.

In November, Dairygold welcomed a delegation from TINE SA including Hanne Refsholt, Chief Executive, Trond Reierstad, Chairman and Jon Georg Dale, the Norwegian Agriculture Minister. During the visit Michael Creed, the Irish Minister for Agriculture, Food and the Marine, joined the Norwegian Agriculture Minister to plant an oak tree on the site of the proposed new Jarlsberg® cheese production facility in Mogeely as a symbol of future strong cooperation between the two organisations.

Dairygold Milk Suppliers Sean and Treasa Moher who won the Dairygold Milk Quality Award in 2016 pictured on their farm with their children Fionn and Molly.

MILK QUALITY AND SUSTAINABILITY

As a food processor, Dairygold's success is inextricably linked to the quality of our raw materials. Dairygold Milk Suppliers today, produce some of the best quality milk in the country. Despite the challenges of milk production expansion and dairy market volatility, our Members once again improved their milk quality and produced higher levels of constituents during the year.

The Society's average constituents are well ahead of the national average. Our A+B-c and Balanced Scorecard milk payment mechanisms reward Milk Suppliers for constituents and quality and these systems are ensuring that price differentials are available for higher milk constituents and quality.

As dairy expansion continues in the years ahead, there will be greater focus and attention on sustainability. There is impetus at both EU and national level for transparent structures to be applied to the achievement of sustainable farming and processing practices. Our tradition of grass based milk production means our operations are already some of the most sustainable in the world.

We produce our food ingredients in a sustainable manner and we are proud to have the structures and procedures in place to verify this. This has become more important as a number of large international customers look to their suppliers for demonstrable evidence of their credentials in sustainable milk production.

At a processing level we have invested heavily to deliver the sustainability required within our operations. At farm level we have worked hard to achieve compliance with the SDAS and specific processes have now been introduced to ensure full participation by our Milk Suppliers from 1 January 2018.

MEMBER TRAINING

In January 2017, 21 participants were awarded certificates for their successful completion of the Member Up-Skilling Programme. The programme is designed to increase Members' understanding of the dairy industry, markets and policy as well as increasing their awareness of Dairygold, its operations and governance. The programme, which is accredited by ICOS Skillnet, qualifies participants for admission as members of the Plunkett Institute. Dairygold is a founding member of the Plunkett Institute, which aims to promote best in class governance in Co-Operatives and formalise the training and development of Co-Operative Directors. I would encourage Members to avail of the opportunity to participate in this programme.

FARM SAFETY

Dairygold is engaged in a number of initiatives to do its part to support safer farming for our Suppliers and their families.

The farm safety walks organised throughout the year were just one such initiative with guest speakers from the Health and Safety Authority (HSA) discussing risk assessment on the farm during events run in 2016. In addition, Dairygold continues to be an active supporter of the 'Champions for Change' campaign launched by FBD and ICOS.

While these initiatives are important for highlighting the issue, it is still crucial to recognise the importance of individual farmer action on farm safety. The HSA website provides helpful tools to allow you assess safety on your farm and tips on how to improve the safety of your farm for you and your family.

Every farm fatality can be avoided by taking a few minutes each day to think about safety on your farm. Let's all work together to keep one another safe in 2017.

RECOGNITION AND AWARDS

During the past 12 months, the Society has received recognition for its achievements. Dairygold was awarded *Agribusiness of the Year* in the Dairy category at the second annual Agribusiness Awards. This award recognised Dairygold's outstanding work across three main initiatives; market volatility support measures for farmers, our work in developing specialised soil fertility and nutrition programmes for farmers and progress made in sustainability including the SDAS.

Dairygold was shortlisted for three other awards including: *Innovation in Agribusiness, Best Use of Technology* and the *Judge's Choice Award of Overall Agribusiness of the Year*.

Dairygold received *The Sustainable Supply Chain Achievement Award* at the annual Green Awards. This was the second year running in which Dairygold won an award, recognising the best green energy and sustainability practices within Irish industry.

The extensive work carried out by the business over the past five years in preparing for and managing post quota expansion earned Dairygold the coveted titles of the *Overall Cork Company of the Year 2017* and *Cork Large Company of the Year 2017* at the annual Cork Chamber Business Awards. The awards are a recognition by our peers of Dairygold's involvement and contribution to the Cork business community. I want to thank all employees and Members of our Representative Structure for the part they played in helping to achieve these awards.

Pictured with the Cork Chamber of Commerce awards for the Overall Cork Company of the Year 2017 and Cork Large Company of the Year 2017 are James Lynch, Chairman, Tim Healy, Head of Dairy Operations, John O'Mahony, Head of Engineering and John O'Gorman, Vice Chairman.

EXTERNAL AUDITOR

In line with good governance, it was decided to change the external auditor of the Society and an extensive external audit tender process was undertaken by the Audit Committee. PricewaterhouseCoopers were appointed as external auditor for three years commencing 1 January 2016.

We would like to acknowledge and thank the outgoing external auditor Deloitte, for their services and professionalism during their tenure.

BOARD AND MANAGEMENT

I want to congratulate John O'Gorman on his election as Vice-Chairman of the Board and I look forward to working with him in the months ahead. I would like to thank the outgoing Vice-Chairman, Tom Feeney, for his commitment and contribution to the work of the Board as Vice-Chairman over the last two years.

I want to thank all my colleagues on the Board for their significant contribution and support over the year. I also thank the Members of the General and Regional Committees for their contribution to the Society over the past year.

I would like to express the Board's appreciation for the work of Jim Woulfe, Chief Executive, for his leadership and commitment, to his senior management team and all employees for their input and dedication during 2016. Finally, I thank all Members and customers for their continued loyalty and support.

CONCLUSION

The Dairygold business is following a very clear strategic path. Through good planning we have managed the transition to post quota operations. To support expansion we have built a world class processing foundation and realigned our organisational structure. We have invested in the people and capability needed to deliver on our value added commercial objectives.

We are continuing to build value added partnerships and despite the market challenges we continue to incrementally build the strength of the business. As confidence returns to dairy markets and with your continued support we are in a strong position to grow and prosper for the benefit of all Members.

James Lynch
Chairman

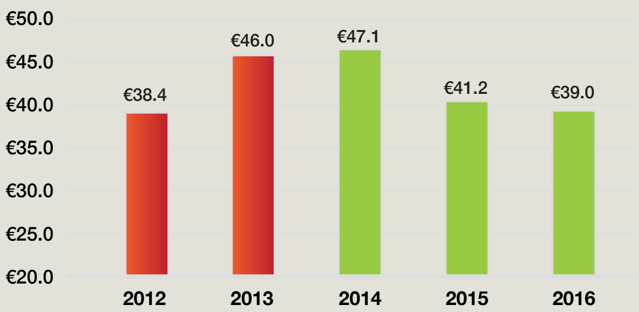
Jim Woulfe
Chief Executive

CHIEF EXECUTIVE'S REVIEW

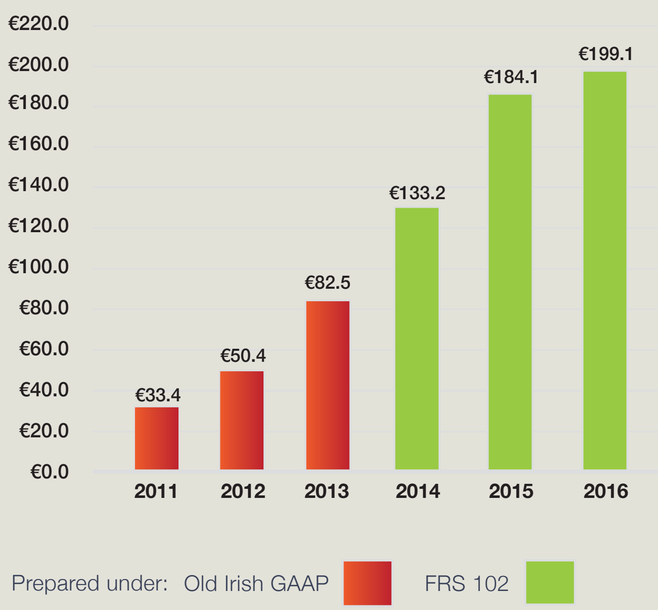
Dairygold delivered a very solid financial performance in 2016, against a back drop of very weak market returns especially in the first half of the year, not experienced since 2009. Dairygold responded by utilising its financial strength to support market returns for both milk and grain.

The business generated a turnover of €756.1 million, reflecting a reduction of 3.7% (€28.8 million) compared with 2015, delivering an EBITDA of €39.0 million (2015: €41.2 million).

EBITDA €million



Cumulative Investment €million over the last six years



The operating profit for the year of €17.5 million (2015: €19.2 million) was €1.7 million lower than the previous year. This was after providing circa €25 million (2015: circa €20 million), in farm gate milk price support and also supporting Grain Suppliers.

Dairygold invested a net of €15.0 million of cash primarily in capital projects over the year resulting in a total investment of circa €200 million over six years. The year end net bank debt of €88.7 million, was €7.5 million lower than the previous year, a prudent level based on the size of the enterprise and the level of profitability generated.

At year end the net asset value of the business was €307.6 million (2015: €315.5 million).

DAIRY MARKETS

It was a year of two halves as far as dairy markets were concerned. The first half of the year saw continued volatility with declining market returns impacting at processor and farm level. As we moved into the second half of the year, we began to experience a change in the dairy market dynamic, with global milk output slowing down across all regions except for the USA, where cheap feed inputs continues to be a stimulant to drive milk production. The slowdown in milk output helped to stimulate market demand and global prices rose slowly but steadily from a very low base.

The shift in market sentiment was primarily supply led. Low profitability combined with the seasonal production trough, reduced milk output in the Southern Hemisphere and Europe. China imported more cheese and butter but commodity powder volumes remained well below the record levels of 2014. Meanwhile, the continued Russian ban and low oil prices kept demand in check.

Overall import figures for the major dairy importing countries did recover and 2016 ended with a positive outlook for milk price. The main concern remains the overhang of dairy stocks especially milk powders which will take longer to clear.

DAIRY BUSINESS

Irish Operations

2016 marked our third consecutive year of commissioning new plant. Our new Speciality Dairy Nutrition and Ingredients Complex at Mallow was fully commissioned in time for 2016 peak milk supply. This state of the art processing facility, is the foundation for the development of the Society's value added nutritional business. Further investment is currently underway in Mallow relating to improving customer and visitor experience and it is our intention to officially open the Mallow Complex in 2017.

Our dairy processing platform has been increased by 55% in peak weekly processing capacity since 2011, going from 29 million litres to 45 million litres today, depending on product mix. With dairy production expansion continuing apace, Dairygold had another year of record milk volume supplied. Despite the dairy market challenges, 2016 saw our Milk Suppliers deliver record volumes of 1,205 million litres and milk solids at record levels.

In September, Ornua officially opened its new Kerrygold Centre of Excellence at our Castlefarm Dairy Campus. The Ornua and Dairygold operations have a symbiotic relationship working in partnership to take advantage of the first class facilities already in place.

The Kerrygold butter production facility receives a supply of fresh cream from Dairygold, pumped directly into the plant via a connecting pipeline eliminating the need for transport. This collaborative approach offers obvious efficiencies, reduces carbon emissions and is a model of sustainable production.

Earlier in the year Norway's largest dairy co-operative, TINE SA, announced its intention to deepen its partnership with Dairygold with the proposed development of a new Jarlsberg® cheese production facility at our Mogeely site. The new plant proposes the quadrupling of the current Jarlsberg® production in Ireland.

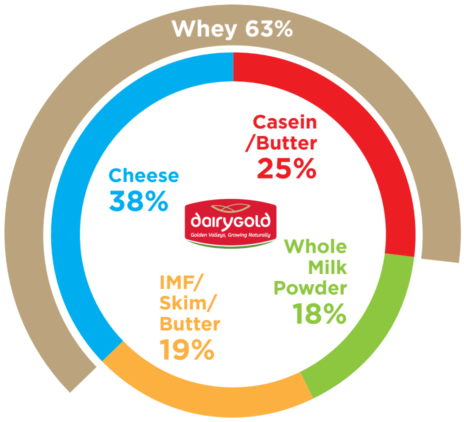
Conor Galvin, Head of Dairy Commercial and Business Development with Tim Healy, Head of Dairy Operations.

Operating in the business to business sector of the food industry, strong commercial partnerships like these with leading food manufacturers are essential to our success.

Our expanding milk volumes and the proposed increase in Jarlsberg® cheese production in Mogeely will deliver greater whey volumes, which will justify further capital investment to produce higher value added ingredients.

A core objective of our post quota commercial strategy is to develop higher value added products and markets for our food ingredients business. The investment we have made in state of the art processing facilities gives us the platform to explore and develop such opportunities.

2016 Product Portfolio (milk utilisation)



Overseas Operations

Chris Edge, Head of Dairygold Food Ingredients UK Limited.

Our cheese ingredients business located in the UK had a good year delivering increased sales, with strong operational and financial performance. As a key route to market, the business continues to develop strong relationships with key customers in the UK industrial and food service sectors, based on the business capability and service provided.

Brexit will pose challenges as well as opportunities for our UK business. From its position inside the UK market, it is well placed to further grow market share. Its challenge will be to recover the increased euro cost of raw materials purchased outside the UK.

Our German ingredients business also had a successful year with increased sales volumes to the industrial and food manufacturing sectors.

Sean O'Sullivan, General Manager Agri Operations with John O'Carroll, General Manager Agri Retail.

AGRI BUSINESS

The farm inputs sector nationwide in 2016 was impacted by the significant downturn in farm gate milk prices. Milk expansion was achieved with minimal supplementary inputs as favourable weather conditions facilitated optimal grass production and utilisation. Despite these factors sales of feed and fertiliser were very satisfactory.

Following restructuring, our sales team are operating on a partnership approach with farmer customers, focusing on driving farm output and profitability per hectare. The team strives to provide best in class service through high levels of technical competence with a face to face point of contact.

2016 was the fourth consecutive year of record global grain production leading to further weakening of market returns. Meanwhile, unfavourable harvest weather conditions at home made for a very difficult harvest. Volumes supplied were impacted due to lower acreage sown year on year and lower harvest yields.

Pressure on farm gate prices has brought the cost of agricultural inputs sharply into the focus. Dairygold continues to drive for the utmost efficiency in how the business services the input requirements of our farmer Members and customers. Our inputs business is focussed on competitiveness in a sector that is pursuing a low cost sustainable model. The Society's involvement in the supply of critical farm inputs through the Agri business facilitates the traceability of key inputs for milk production, which is becoming ever more important with our discerning customers.

Gillian Foley, Retail Marketing Manager and Jim Woulfe, Chief Executive, presenting the Man of the Match award to Alan Cadogan after the Munster Senior Hurling League Final. Co-Op Superstores were the sponsors of the 2017 Munster Senior Hurling League.

Our Retail business recorded a solid performance with turnover up year on year driven by the non agri product categories of builders, garden, household and DIY. However, the recovery in the Irish retail sector has been slow with price competition as intense as ever. The Retail business implemented phase one of a cost reduction programme and incurred once off costs associated with aligning employee costs and work practices throughout the business.

However, the competition remains strong and it is only by our approach to operating a low cost model and providing an appropriate range of competitively priced products that we can ensure the sustainability of our Retail business. This involves innovating to find more efficient and complementary ways to deliver our retail offering - our online store is an example of such an initiative. We have promoted this initiative through the sponsorship of the Munster Senior Hurling League.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Munster Cattle Breeding Group Limited had a successful year within the constraints of the dairy sector. Due to the prevailing environment there was an increase in first inseminations with farmers switching from DIY straws and a lower use of milk recording. The business continues its focus on delivering value to its farmer customers through improved genetics and a wider range of services offered.

The Malting Company of Ireland Limited, jointly owned with Glanbia plc, had a successful year with strong sales. The business provides a route to market for premium Irish barley. 2016 was a difficult year for growers, due to the unanticipated quality challenges with malting grain. Co-Operative Animal Health Limited, also jointly owned with Glanbia plc, continues to be a key supplier of competitively priced animal health and mineral products and in 2016 delivered significant value to farmers.

BREXIT

While market challenges were at the forefront for most of 2016, the UK vote in June to leave the EU presents a very significant challenge to the Irish agri-food industry, especially the dairy sector. The UK is Ireland's largest market for cheddar cheese and butter with nearly 60% of cheese production and 25% of butter exported into that market.

Michael Creed, Minister for Agriculture, Food and the Marine, has established a consultative committee and a dedicated unit within the Department to work on all issues of concern including currency fluctuations, tariffs, regulations, standards, customs controls and certification.

Brexit has the potential to make Irish exports uncompetitive in the UK. In Dairygold's case, our UK businesses will also be challenged to recover the increased cost of raw materials purchased outside the UK.

The Society is involved in a number of strategic initiatives in preparation for Brexit. At Board and management level we recognise that there will always be external challenges to our businesses, be it Brexit, World Trade Organisation (WTO) or Transatlantic Trade and Investment Partnership (TTIP) which Dairygold cannot influence, however we must have the agility to avail of the opportunities and meet the challenges as they arise. We will be relentless in identifying more 'value added' opportunities in our core businesses.

SUSTAINABILITY

Irish dairying boasts one of the lowest carbon footprints in Europe. Our temperate climate, rich soil and abundance of water together create the perfect conditions for grass fed dairy herds producing quality milk. The challenge for our industry is to ensure that dairy expansion happens within a framework that protects and develops these unique natural advantages.

As well as our obligations to meet national and EU regulatory targets, sustainability is a requirement of customers and offers a market opportunity for Dairygold. For this reason, the sustainability agenda is now a growing strategic focus area for our business.

At processor level, the Society is investing in a processing platform that reduces energy and water usage and improves emissions while offering our farmer suppliers best in class dairy processing capability. Dairygold is also working with its Members to deliver sustainability initiatives at farm level and striving to achieve full Milk Supplier participation in Bord Bia's SDAS.

For its part Dairygold has a formal sustainability programme which includes membership of Bord Bia's Origin Green national sustainability programme. We completed our first three year sustainability plan in 2016 for the years 2014 to 2016 and our initiatives and achievements are paying dividends, as noted on pages 14 and 15.

Dave Fitzgerald, Head of Sustainability, accepts the Green Award for 'Sustainable Supply Chain Achievement' on behalf of Dairygold from Mary Whinnery, Product Manager, Calor at the Green Awards 2017.

BRANDING

Dairygold today is selling product to over fifty countries worldwide. The goal is to grow our export sales. Our corporate brand and identity are important elements in the pursuit of that goal. The Brand will deliver one clear vision and an unambiguous statement about Dairygold and our market proposition.

The Dairygold business has evolved in a variety of ways since the first Dairygold logo was developed over 25 years ago and the organisation required an identity that currently reflects our sustainability credentials.

I am confident that the brand update will serve as a reminder to our customers, our Shareholders and our employees, about what makes us unique. This is an important project in our post quota commercial strategy and in the evolution of our Society. Further details are set out on page 13.

PEOPLE

Our people are critical to the success of our business and are a key enabler to delivering our strategy. Focus on people capability and development is a key driver to success. In Dairygold, we are continuously building capability, ensuring that we have competent and talented people across the organisation.

A key focus over the last two years has been building this capability in the areas of Innovation, Business Development, Commercial and Operations, aligned to the nutritional strategy. The Society has invested in training across the organisation, continued to adopt a culture of continuous improvement and has recruited key individuals.

As part of the training, the Society has developed leadership programmes for managers with IMI/UCC and over the last 4 years, 60 employees have received Diplomas in High Performance Leadership. The Society is now initiating an Advance Leadership Development Programme with the UCD Michael Smurfit Graduate Business School, where a number of key managers within the Society, will complete the programme in 2017.

FUTURE STRATEGY

Dairygold has successfully transitioned from the quota controlled production era to the more volatile, milk expansion, post quota environment. This transition has led to significant investment in primary processing and people capability. We are now on the cusp of leveraging these investments to deliver on our future strategy and particularly the delivery of more value added opportunities for the business.

A core strength of the Dairygold business is the capability to develop and maintain strong commercial partnerships with global food companies. These partnerships have been an avenue to significant value added activities for the business. We will continue to seek out strategic partnerships with leading global organisations.

The Society has invested in strengthening its commercial capability and is delivering innovative and creative solutions. This will build our brand and reputation attributes such as quality, integrity, innovation and sustainability. Our global marketing and sales efforts are exposing Dairygold to new and higher value added markets.

In terms of identifying more value added opportunities in our product portfolio, our key focus is on Dairy Nutrition, where we now have dedicated resources exploring business development opportunities.

To facilitate the delivery of the strategy, the Society has also agreed enhanced Banking facilities for 2017 to 2021 to underpin our strategic growth ambitions.

THANK YOU

On a personal level, I want to thank the Members of the Board together with the General and Regional Committees for their input and support over the year and would like to particularly thank James Lynch, Chairman, for his continued advice and support.

I want to thank all our customers for their loyalty to the Society and all our Shareholders and Suppliers, both milk and grain, for their ongoing contribution to the success of the Society.

Finally, I wish to thank my management colleagues and all staff in every part of our business for their effort and commitment throughout the last year.

CONCLUSION

Some confidence has been restored to dairy markets over recent months. Dairygold's processing capability will capitalise on the upside to take full advantage of the opportunities for our Member Suppliers. Our key focus is on developing value added nutritional capability to develop and to grow organically and by acquisitions a profitable and sustainable business for the future.

Jim Woulfe
CEO

BRANDING

The Dairygold Brand Evolution

With the world's population projected to increase by circa 2.5 billion (circa 33%) by 2050 and with the abolition of EU milk quotas, Dairygold implemented a strategic business development plan to enable the Society to take advantage of the growing demand for dairy nutrition in the global marketplace by focusing on increasing our processing capacity and our capability.

Part of this strategic plan is to market Dairygold globally, as a farmer owned Co-Operative which supplies natural, sustainable, innovative dairy produce, which nourishes people all over the world. As part of this journey we have created an updated brand identity and positioning statement, creating a differentiator in the marketplace.

1 Taking inspiration from the old Mitchelstown logo, we have retained the encapsulation and from the old Ballyclough logo, we have retained the rings but adapted to form the letter 'D'. This also resembles the letter 'D' in a traditional Gaelic typeface recognising the heritage and deep sense of tradition Dairygold occupies within the Irish dairy industry.

2 Our positioning in the marketplace and our story around the Dairygold name originates from the heart of the Golden Valleys within the province of Munster. These valleys enable our grass fed cows to produce gold standard dairy ingredients which nourish people all over the world. It will serve as a reminder for all, as to what makes Dairygold uniquely different to the competition and forms the basis of marketing our Dairygold brand globally.

3 The word 'Growing' holds very strong connotations with our strategic vision to associate the brand with the health benefits of dairy and in nourishing people all over the world. With an ever-increasing focus on sustainability and traceability, customers will pay a premium price for 'Naturally' sourced dairy produce.

4 The interconnected valley like shape centered above the Dairygold typeface represents the Golden Valleys and also serves as a reminder that Dairygold is built on fostering close relationships with its key partners and Shareholders.

5 The 'U' shaped green curve signifies sustainability and the location of Dairygold HQ, at the heart of the Golden Valleys, among the most fertile hinterlands in the world.

1 Mitchelstown

2 dairygold Golden Valleys,

3 dairygold Golden Valleys, Growing Naturally

4 dairygold Golden Valleys, Growing Naturally

5 dairygold Golden Valleys, Growing Naturally

SUSTAINABILITY

Dairygold has served the needs of local farms for over 100 years and the principles of sustainability are at the very core of how it operates. Furthermore Dairygold believes that to be successful, a business must operate to these principles. A sustainability framework has been put in place with a Sustainability Policy and four strategic pillars - Farm, Supply Chain, People and Communities.

Programme Highlights

GREEN AWARDS
FOR TRANSPORT
FOR MANUFACTURING

GREEN AWARD
FOR SUSTAINABLE SUPPLY CHAIN ACHIEVEMENT

DEVELOPED AND ROLLED OUT
NEW DAIRYGOLD SUSTAINABILITY POLICY

COMPLETED ORIGIN GREEN 2014-2016 PLAN
WITH IMPROVEMENTS IN A NUMBER OF KEY AREAS

97%
SDAS -
PARTICIPATING SUPPLIERS

FARM

- Dairygold/Teagasc Farm Development Programme - continued to drive increased farm profitability and farm practices including farm safety.
- Measures to support economic sustainability:
  - Milk and grain price support
  - Launch of voluntary fixed milk price schemes
  - Lower cost loans and credit facilities negotiated with the banks for Milk Suppliers
  - Extended credit terms
  - Introduction of a loyalty reward scheme
- Bord Bia Sustainable Dairy Assurance Scheme (SDAS) – 97% of Milk Suppliers participating.
- Carbon Assessments carried out on over 2,200 (80%) Supplier farms.
- Development of the lean farm programme.
- Rollout of soil fertility testing programme.

SUPPLY CHAIN

- Transport fuel efficiency – diesel per litre milk collected has improved by 10% since 2014.
- 2 successful Sedex ethical supplier audits carried out on Castlefarm and Clonmel Road processing facilities.
- Member of Origin Green and completed Origin Green plan (2014-2016).
- Successful ISO 50001 energy management standard re-certification in 2016.
- Supporting R&D in sustainability as a leading member of the Dairy Processing Technology Centre (DPTC).

Sustainable Dairy Assurance Scheme

Dairygold has continued to roll out the Bord Bia SDAS at farm level. This national programme sets standards for areas such as food safety, hygiene, animal health and environmental sustainability.

Specific processes have now been introduced to ensure full compliance by our Milk Suppliers from 1 January 2018.

Recent Achievements

PEOPLE

- IMI/UCC training – members of staff completed a Diploma in High Performance Leadership in 2016.
- Graduate Development Programmes;
  - Diploma in Management
  - Professional Training.
- Values and behaviours training for managers.
- Continuous Improvement Training – staff members have completed Lean Six Sigma Green Belt Training.
- Health Promotion events for staff including weight loss, fitness, diabetes, nutrition and stress management.
- Health & Safety training for staff – in 2016 over 375 people received H&S training in dairy processing.

COMMUNITIES

- Wrap it Pink raised €17,500 for the Irish Cancer Society through the sale of pink silage bale wrap in our stores.
- Staff Charity Fun Run/Walk - €15,000 donated to three local charities.
- Co-Op Superstores sponsored the 2017 Munster Senior Hurling League.
- Significant sponsorship provided to national charities and local community groups.

Sustainability policy

Reflecting the importance of sustainability to the business, in 2016 Dairygold developed a Group wide sustainability policy.

The Policy formalised Dairygold's commitment to sustainability by the Senior Leadership Team and outlines the priorities of the business in this area.

As a multipurpose Co-Operative, Dairygold is in a position to influence and improve sustainability from primary production on Member farms, milk transport, processing, storage and distribution to the customer. This full supply chain approach is a key part of Dairygold's overall sustainability strategy.

Origin Green

In 2013 Dairygold became a member of Origin Green, a Bord Bia national sustainability programme for the food industry. A 3 year improvement plan running from 2014 to 2016 was agreed with objectives and targets in the areas of Supplier Sustainability, Manufacturing Sustainability and Social Sustainability. The current plan is now complete and initiatives that have been delivered include:

- Energy and water efficiency improvements in dairy processing
- Sustainability criteria and assessment rolled out to raw material suppliers
- Health Screening of >300 staff per annum

A new plan is currently under development.

FINANCIAL OVERVIEW

Against the volatility of challenging dairy markets, Dairygold delivered a relatively strong financial performance, generating an operating profit before restructuring costs of €17.5 million, while significantly supporting its Milk and Grain Suppliers, in line with it's Co-Operative ethos.

Eamonn Looney, Secretary with Adrian Beatty, Head of Human Resources and Michael Harte, Chief Financial Officer.

2016 FINANCIAL HIGHLIGHTS

- Delivered an operating profit before restructuring costs of €17.5 million, after supporting milk price by circa €25.0 million.
- Invested a net of €15.0 million of cash primarily in capital expenditure.
- The net bank debt of €88.7 million reduced by €7.5 million.
- The Society completed a refinancing exercise with its banking syndicate.

Consolidated Income Statement

Turnover in 2016 was €756.1 million (2015: €784.9 million), a reduction of €28.8 million. In the dairy business, turnover was impacted by continuing falls in dairy markets through the first half of the year, with a slow recovery in the second half of the year. This was partially offset by increased sales volumes, assisted by increased milk volumes of 4.1%. In the Agri business, turnover was down year on year, driven by reduced selling prices and fertiliser volumes due to strong grass growth and favourable weather conditions, while Retail sales increased year on year.

The overall operating profit, before restructuring costs was €17.5 million (2015: €19.2 million), a reduction of €1.7 million. While the business benefited from the increased milk volumes, the Society supported its Milk Suppliers by circa €25.0 million by paying a milk price in excess of market returns, reducing the profitability that the Society would normally generate from its dairy business.

The operating profit, after allowing for milk price support, was driven by:

- Processing and operating efficiencies following the extensive capital investment programme over recent years;
- Continued focus on margin enhancements and cost control, including a number of one off initiatives across the Society;
- Continuing to optimise product mix, routes to market and working closely with key customers; and
- Strong operating performances across all business units.

The share of joint ventures' and associates' performance was an operating profit of €0.3 million in 2016 (2015: (€0.2) million).

The net interest charge was €6.1 million (2015: €5.5 million), with the increase primarily driven by an increase in the annual average debt, increased margin and refinancing costs.

The profit after tax for the financial year of €5.9 million (2015: €8.3 million), a reduction of €2.4 million, reflected a reduced operating profit of €1.7 million, restructuring costs of €1.2 million, an increase in net interest payable of €0.6 million, offset by an increase in the share of joint ventures and associates of €0.5 million and a reduction in the negative movement in the value of financial assets year on year of €0.6 million.

Consolidated Statement of Financial Position

In 2016 the net asset value of the Society's consolidated statement of financial position reduced by €7.9 million to €307.6 million (2015: €315.5 million). The decrease primarily reflected the profit for the financial year (excluding non-controlling interests) of €5.6 million, positive movements in non-controlling interests in Munster Cattle Breeding Group Limited of €0.2 million, offset by negative non-cash movements related to the pension scheme of €4.8 million, negative exchange differences on re-translation of subsidiary undertakings of €5.0 million, share interest of €1.2 million and net shares redeemed of €2.7 million.

Fixed assets of €317.7 million (2015: €333.3 million) comprising of intangible assets, tangible assets, investment properties and financial assets reduced by €15.6 million, as a result of:

- depreciation and amortisation charges of €23.2 million;
- reduction in quoted and unquoted shares of €3.9 million;
- disposals of tangible assets of €0.3 million;
- the impact of negative currency movements of €1.0 million;
- a net reduction in Ornua loan stock of €0.7 million.

These reductions were partially offset by:

- capital expenditure investment of €10.3 million;
- an increase in the investment property assets' valuation of €3.0 million;
- an increase in the share of joint ventures and associates of €0.2 million.

Net current assets less creditors falling due after more than one year of €9.4 million (2015: (€4.1) million) increased by €13.5 million primarily as a result of:

- an increase in stocks of €3.1m to €132.4 million (2015: €129.3 million);
- a reduction in creditors (excluding bank debt and finance leases) of €16.4 million to €128.5 million (2015: €144.9 million);
- a reduction in bank debt and finance leases of €7.5 million to €88.7 million (2015: €96.2 million); and
- offset by a reduction in debtors of €13.5 million to €94.2 million (2015: €107.7 million). The reduction in debtors was driven by debt factoring arrangements entered in 2016, which reduced debtors by €15.9 million.

The capital grants' liability of €9.7 million (2015: €9.9 million) reduced by €0.2 million as the amortisation credit for the year of €1.6 million was partially offset by the €1.4 million capital grants received during the year.

The deferred tax liability of €3.4 million (2015: €3.8 million) reduced by €0.4 million year on year.

The consolidated statement of financial position at 31 December 2016 reflected a pension liability of €6.3 million (2015: pension asset of €0.1 million). The negative movement was driven by an increase in the liabilities of €23.8 million primarily reflecting a decrease of 70 basis points in the discount rate to 1.9% which was partially offset by not providing for discretionary increases and an increase in the pension assets of €17.4 million.

The share capital reduced by €4.1 million to €89.0 million (2015: €93.1 million), reflecting shares redeemed of €2.2 million, shares cancelled of €2.0 million, partially offset by shares issued of €0.02 million. The level of shares issued was lower than previous years, as Milk Suppliers are not required to meet minimum shareholding levels when the Dairygold quoted milk price is less than 30 cents per litre in any given month, as was the case during 2016, except for December, when the Board decided not to deduct contributions.

The profit and loss account reserve reduced by €5.0 million to €214.1 million (2015: €219.1 million) reflecting the profit for the financial year (excluding non-controlling interests) of €5.6 million, a benefit of €1.4 million on shares cancelled, offset by negative non-cash movements related to the pension scheme of €4.8 million, negative exchange differences on retranslation of subsidiary undertakings of €5.0 million, share interest of €1.2 million and a transfer to the bonus reserve of €1.0 million.

Consolidated Statement of Cash Flows

The reduction of €3.1 million in cash and cash equivalents from €4.4 million to €1.3 million, together with the reduction in bank loans and finance leases of €10.6 million, reflects the overall reduction in net bank debt of €7.5 million in 2016.

The net bank debt of €88.7 million (2015: €96.2 million) reduced by €7.5 million, resulting from:

- EBITDA of €39.0 million (2015: €41.2 million), after supporting milk price by circa €25.0 million;
- Reduction in working capital requirement of €1.6 million (2015: (€6.5) million), resulting primarily from lower working capital requirements in debtors, following the implementation of debt factoring arrangements;
- No Member funding receipts (2015: €1.4 million) in relation to revolving fund (as Members were not required to contribute) and the cessation of the loan note offering at the end of 2015, in line with the agreed timelines;

These were partially offset by:

- Non-cash movements of €7.0 million (2015: (€0.1) million) in relation to revaluation of investment properties and foreign exchange differences;

- Investment in the business of €15.0 million (2015: €50.0 million), relating to a reduction in capital expenditure (net of grants and disposals) of €33.4 million and an increase of net receipts in financial assets of €1.6 million;
- Payments of €11.1 million (2015: €11.0 million) to cover net finance costs, taxation, pension costs, restructuring costs, equity financing and share interest.

The Society's long term borrowings are subject to financial covenants calculated in accordance with the facility agreements with the Society's lenders. The Society's Consolidated Statement of Financial Position is robust, with a Net Debt to adjusted EBITDA ratio of 2.28 times.

In 2016, the Society completed a refinancing exercise with its Banking Syndicate, which provides the Society with sufficient headroom to support its future growth plans and a cheaper cost of funds.

Pension

In 2016 the FRS 102 valuation resulted in a pension liability of €6.3 million (2015: asset of €0.1 million), reflecting an increase in assets of €17.4 million and an increase in liabilities of €23.8 million. The increase in the scheme assets reflected a positive performance in the market. The increase in liabilities was primarily driven by a fall in the discount factor to 1.90% (2015: 2.60%), which was partially mitigated by not providing for discretionary increases. A provision for discretionary increases of €14 million was included in 2015.

A full actuarial valuation of the scheme was undertaken by the Society in 2016 in line with legislative requirements. As at 1 January 2016, the Scheme was approximately 101.5% funded on the Minimum Funding Standard basis (allowing for the Risk Reserve Requirement).

Given the volatility around financial markets and pension schemes in general, the Society continues to actively monitor the scheme and to proactively pursue further risk mitigation initiatives.

Member Funding

Member Funding was introduced in 2013 as part of the Society's overall funding strategy to support the delivery of its business growth ambitions.

Total Member Funding received (including accrued interest) to 2016 was €11.2 million (2015: €10.9 million). This is made up of €2.7 million in loan notes (2015: €2.6 million) and €8.5 million (2015: €8.3 million) in the revolving fund.

The suspension of revolving fund contributions continued in 2016 due to low milk prices. This is in accordance with the terms and conditions of the scheme and a Board decision to support our Milk Suppliers in challenging years from a cash flow perspective.

Non-Core Assets

Financial Assets

The Society's investment portfolio includes investments which are managed in conjunction with a third party investment manager. The market value of quoted financial assets was €34.5 million (2015: €38.4 million) including Aryzta AG at €17.3 million (€41.45 per share), FBD plc at €0.4 million (€6.89 per share), One51 plc at €6.9 million (€1.40 per share) as at 31 December 2016 and an investment portfolio of €9.9 million. The reduction in the value of quoted shares of €3.7 million is primarily driven by the fall in the Aryzta AG valuation of €2.4 million year on year.

Property

The Society, as at 31 December 2016, holds circa €48 million of non-core property assets. The primary focus is to maximise the value from these properties for the Society, through a combination of developmental, rental and commercialisation opportunities, which the Society is actively pursuing and delivering on.

Conclusion and Outlook

The Society has delivered a robust financial performance in 2016, after significantly supporting its Milk and Grain Suppliers against declining and continuing uncertain markets. The Society continues to invest in its future by developing new products, improving processing capacity and efficiency, identifying new customers and routes to market and working with its people to deliver on its future strategy to sustainably maximise returns to its Members. The Society is in a strong and financially prudent net debt position. Dairy markets in 2017 look relatively more promising and are being approached with cautious optimism.

DIRECTORS, OFFICERS, COMMITTEES AND OTHER INFORMATION

Board Committees

The Board has established a committee structure to assist it in the discharge of its responsibilities in compliance with the highest standards of corporate governance. The committees and their membership are detailed below. All committees of the Board have written terms of reference, which are reviewed annually, dealing with their role and authority delegated by the Board. The Secretary of the Society acts as Secretary to each of these committees.

Audit Committee

The Audit Committee comprises Ms. Annette Flynn (Chairman) and Messrs. Richard Hinchion, Edmund C. Lynch and John O'Sullivan. The Chief Executive, Chief Financial Officer, Head of Internal Audit, other Directors, Senior Management and representatives of the external auditors may be invited to attend all or part of any meeting.

The role and responsibilities of the Audit Committee are set out in its written terms of reference and include:

- monitoring the integrity of the financial statements for the Group and reviewing significant financial reporting judgements contained therein;
- reviewing the annual financial statements before submission to the Board;
- monitoring and reviewing the operation and effectiveness of the Internal Audit function;
- considering and making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and their terms of engagement;
- approving the remuneration of the external auditor for statutory audit work and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted. Reviewing the extent of any non-audit services and related fees;

James Lynch
Chairman

John O'Gorman
Vice Chairman

Donal Buckley

Thomas Feeney

Dan Flinter

Annette Flynn

Richard Hinchion

Edmund C. Lynch

- assessing annually the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;
- reporting to the Board on the operation of the Society's system of internal control and risk management, making any recommendations to the Board thereon;
- monitoring and reviewing the statutory audit of the Society and its subsidiaries' statutory financial statements;
- reviewing the arrangements by which employees of the Society may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that these arrangements allow for a proportionate and independent investigation of such matters and appropriate follow up action; and
- reviewing its own effectiveness as a committee and making any necessary recommendations for change to the Board.

The key activities undertaken by the Audit Committee during 2016 under its terms of reference were as follows:

Financial Reporting

The Audit Committee reviewed the statutory financial statements of the Society before submitting them to the Board of Directors for approval. This review focused on, but was not limited to, changes in accounting policies and practices, key judgement areas, the going concern assumption and compliance with accounting standards.

Risk Management and Control

The Audit Committee continued to review the risk registers and risk management systems of the Society on a rolling basis during 2016. It considered Internal Audit reports which formed part of the annual work plan approved by the Audit Committee.

Internal Audit

The Audit Committee reviewed the effectiveness of the Internal Audit function including its terms of reference, resources, experience and expertise. It approved the annual Internal Audit plan ensuring its alignment with the key risks facing the Society. It reviewed the output from the Internal Audit programme during the year considering its reports which detailed any significant control issues, notable findings and managements' action plans to remediate any identified issues.

External Audit

In line with best practice, the Board decided to change the external auditor of the Society. During the year, the Audit Committee lead an extensive tender process, resulting in PricewaterhouseCoopers replacing Deloitte as the external auditor. The Audit Committee considered a report on the independence and objectivity of the external auditor and approved their remuneration. The approach and scope of the audit work to be undertaken by the auditor which included planned levels of materiality, key risk and judgement areas were also reviewed.


Sean MacSweeney


Gerard O'Dwyer


Patrick O'Keeffe


John O'Sullivan

Board of Directors

James Lynch
Chairman

John O'Gorman
Vice Chairman

Donal Buckley

Thomas Feeney

Dan Flinter

Annette Flynn

Richard Hinchion

Edmund C. Lynch

Sean MacSweeney

Gerard O'Dwyer

Patrick O'Keeffe

John O'Sullivan


Jim Woulfe
Chief Executive


Eamonn Looney
Secretary

The Committee approved the terms of engagement for the audit. Subsequently, the Committee reviewed the findings of the auditor, assessed the effectiveness of the audit process and the external audit's management letter together with managements' responses.

A formal policy is in place governing the use of the external audit firm for non-audit services in line with best practice. The aim of the policy, which is reviewed annually, is to support and safeguard the objectivity and independence of the auditor. The policy of the Society is that the services of the auditor may be used for non-audit services provided that those services are not in conflict with auditor independence.

Audit Committee Performance

The Audit Committee assessed its performance and is satisfied that it is functioning effectively and that it has met its terms of reference which have been broadened to reflect the evolving regulatory framework.

Acquisition and Investments Committee

The Acquisition and Investments Committee comprises Mr. James Lynch (Society Chairman), Mr. John O'Gorman (Society Vice Chairman), Mr. Dan Flinter (Chairman of the Remuneration Committee), Ms. Annette Flynn (Chairman of the Audit Committee) and Mr. Edmund C. Lynch (Board Nominee).

The Chairman of the Board will, unless otherwise decided by the Board, act as Chairman of the Acquisition and Investments Committee. The role and responsibilities of the Acquisition and Investments Committee are set out in its written terms of reference. The principal responsibilities of the committee are to:

- document the Society's acquisition and investment policies as approved by the Board and review these policies on an on-going basis to assess their effectiveness and recommend changes to the Board.
- review and consider proposals from management in relation to significant acquisitions, investments, disposals and capital expenditure to:
    - ensure that the proposed transaction/ expenditure is consistent with the Society's strategic objectives;
    - evaluate and understand the implications and risks associated with any proposal that constitutes a significant acquisition of, or merger with, or investment in, another commercial entity;
    - understand the financial implications regarding the funding of a proposed acquisition and any subsequent resulting acquisitions and capital investments;
    - understand the financing of projected working capital requirements;
    - ensure the necessary financial, legal, commercial, technical, safety and personnel due diligence has been undertaken, considered and challenged;
    - understand and evaluate any likely regulatory consequences;
    - evaluate and understand the consequences of any proposal that constitutes a significant disposal of a business or asset of the Society or its subsidiaries;
    - understand the proposed communication plan with regard to all Members, Employees, Suppliers, Customers and other Stakeholders in both the Society and the acquired or disposed of business or businesses;
    - keep up to date with and be fully informed about strategic issues and commercial changes affecting the Society and the markets in which it operates;
    - recommend to the Board as to whether any proposed transaction, investment or capital expenditure should be approved, amended or declined. The final decision rests with the Board; and
    - investigate and consider any other matter as requested by the Board.

Remuneration Committee

The Remuneration Committee comprises Messrs Dan Flinter (Chairman), James Lynch (Society Chairman), John O'Gorman (Society Vice Chairman) and Thomas Feeney (Board Nominee). The role and responsibilities of the Remuneration Committee are set out in its written terms of reference. The principal responsibilities of the committee are to:

- determine the policy for the remuneration of the Chief Executive, Secretary and Direct Reports of the Chief Executive as well as the Society's policy on remuneration and/or expenses payable to members of the Board, members of the Regional Committees, General Committee and members of any sub-committee established from time to time;
- review and sanction new or amended salaries, performance related pay, retirement benefit and/or other benefits for Senior Executives of the Society whose remuneration is to be determined by the committee; and
- agree the policy and/or procedures for authorisation of claims for expenses of Senior Executives, the Board and members of the Regional Committees, General Committee and any other sub-committee established from time to time.

Rules Committee

The Rules Committee comprises Messrs James Lynch (Society Chairman), John O'Gorman (Society Vice Chairman), Thomas Feeney and Patrick O'Keeffe (Board Nominees).
The principal responsibilities of the committee are to:

- review the rules of the Society on a periodic basis to ensure they are consistent in their application and aligned to the Society's strategic objectives;
- advise and make recommendations in conjunction with the General Committee, as necessary, to the Board of the Society with regard to any alterations or amendments required to the rules; and
- make recommendations on policy matters, to the Board of the Society, in relation to the implementation of the rules.

Other information

Registered Office

Clonmel Road,
Mitchelstown,
Co. Cork.

Auditor

PricewaterhouseCoopers,
P.O. Box No. 7,
Bank Place,
Limerick.

Principal Bankers

Allied Irish Banks plc
Bank of Ireland
HSBC Bank plc
Rabobank Ireland plc
Ulster Bank Ireland Limited

Solicitors

Arthur Cox
McCann FitzGerald

Senior Leadership Team

Chief Executive

Jim Woulfe

Secretary

Eamonn Looney

Chief Financial Officer

Michael Harte

Head of Human Resources

Adrian Beatty

Head of Dairy Commercial and Business Development

Conor Galvin

Head of Dairy Operations

Tim Healy

General Manager Agri Retail

John O'Carroll

General Manager Agri Operations

Sean O'Sullivan

General Committee

Mallow

Mr. Donal Buckley
Mr. Michael Duane
Mr. John Fitzgerald
Mr. John Hedigan
Mr. John Kenny
Mr. Finian Magner
Mr. Timothy McSweeney
Mr. Michael O'Hanlon
Mr. Andrew O'Keeffe
Ms. Elizabeth Sheehan
Mr. Donal Shinnick
Mr. Peter Twomey
Vacancy

Mitchelstown

Mr. Patrick Clancy
Mr. John W. Coughlan
Mr. Robert Drake
Mr. Thomas Feeney
Mr. John A. Fox
Mr. Michael Gowen
Mr. Jeremiah Linehan
Mr. Martin O'Doherty
Mr. Patrick O'Keeffe
Ms. Mary Twomey-Casey

Mid-Cork

Mr. Patrick Ahern
Mr. John Bernard
Mr. Donal Creedon
Mr. Jerome Desmond
Mr. Brendan Hinchion
Mr. Richard Hinchion
Mr. John Joe Kelleher
Mr. Sean MacSweeney
Mr. Don McSweeney
Mr. Michael Murphy
Mr. Gerard O'Connell
Mr. Daniel P. O'Donovan
Mr. Patrick O'Driscoll
Mr. Bertie O'Leary
Mr. Cornelius O'Riordan

Tipperary

Mr. Matthew McEniry
Mr. Eamonn Morrissey
Mr. John O'Gorman
Mr. Michael Tobin
Mr. Michael Tuohy

East Cork

Mr. Liam Lane
Mr. Patrick D. Lehane
Mr. Edmund C. Lynch
Mr. Sean O'Brien
Mr. Barry O'Connor
Mr. Patrick O'Donovan
Mr. Timothy O'Leary
Mr. John O'Sullivan

Limerick

Mr. Maurice Curtin
Mr. Vincent Griffin
Mr. William Hickey
Mr. Daniel Hogan
Mr. Roger Keogh
Mr. James Lynch
Mr. John McKeogh
Mr. Gerard O'Dwyer
Mr. David Woulfe

Regional Committees

AGHABULLOGUE/ RYLANE
Mr. Patrick Ahern
Mr. Edward Twomey

AHADILLANE
Mr. Donal Barrett
Mr. Patrick Sexton

ALLENSBRIDGE
Mr. Cornelius Murphy

ANGLESBORO
Mr. William Bourke

ANNACOTTY/ BIRDHILL/KILLALOE
Mr. Michael Caplis
Mr. John McKeogh
Mr. Laurence McNamara

ARAGLEN
Mr. Thomas Feeney
Mr. Patrick O'Donoghue

ARDAGH/OLDMILL
Mr. Denis Hayes
Mr. John Hough
Mr. David Woulfe

ARDFINNAN
Mr. Shane Mason

BALLINAMONA
Vacancy

BALLINDANGAN
Mr. Martin O'Doherty
Mr. Patrick O'Keeffe

BALLINGEARY
Mr. Sean O'Sullivan

BALLINHASSIG
Mr. James Crowley
Mr. Michael J. Murphy

BALLYCLOUGH
Mr. Donal Buckley
Mr. Martin O'Brien
Mr. Andrew O'Keeffe

BALLYHOOLY
Mr. Jeremiah Linehan
Vacancy

BALLYLOOBY
Mr. Stephen Keating
Mr. Eamonn Morrissey

BALLYMAKEERA
Mr. Daniel Hallissey
Mr. Bertie O'Leary

BALLYPOREEN
Mr. Patrick M. Clancy
Mr. Michael Sweeney

BALLYRICHARD/ COBH
Mr. Anthony Barry
Mr. Andrew Bird
Ms. Ann Moore
Mr. Patrick O'Donovan
Ms. Martina O'Neill
Mr. Thomas Russell

BAWNMORE
Mr. Cornelius O'Riordan

BENGOUR
Mr. Patrick O'Driscoll

BERRINGS/DRIPSEY
Mr. Denis B. O'Mahony
Mr. John Walsh

BLACKABBEY/KILDIMO
Mr. Patrick O'Brien
Mr. Seamus O'Riordan
Mr. Michael Reidy

BOHERLAHAN
Mr. Joseph Tobin
Mr. Michael Tuohy

BUNRATTY
Mr. James Lynch
Mr. Kevin McInerney

BUTTEVANT/ TEMPLEMARY
Mr. Donal Shinnick
Mr. Ian Wharton
Vacancy

CAHIR
Mr. Thomas Marnane
Mr. Michael Tobin

CAPPAMORE
Mr. Sean Meehan

CARRIGALINE
Mr. John Bernard
Mr. Thomas Casey
Mr. Patrick Foott
Mr. Gerard O'Connell

CARRIGNAVAR
Mr. Laurence Crowley

CASTLETOWNROCHE/ KILLAVULLEN
Mr. Thomas Barry
Mr. Henry Fitzgerald
Mr. Finian Magner

CAUM/MACROOM
Mr. Michael Murphy

CHURCHTOWN / LISCARROLL
Mr. John Hedigan
Mr. Michael Mangan

CLOGHEEN
Mr. John Flynn
Mr. John O'Gorman

CLONDROHID
Mr. Finbarr O'Connell
Mr. Stephen Roche

CLOVERFIELD/ CORELISH
Mr. John A. O'Dea

COACHFORD/ KILCOLMAN
Mr. Dan Dennehy
Mr. Denis Finnegan

C.M.P.
Mr. Timothy Cashman
Mr. John Kingston
Mr. Patrick D. Lehane
Mr. James Murphy
Mr. Donal O'Brien
Mr. Timothy O'Leary
Mr. John O'Sullivan

CORROGHURM/ MITCHELSTOWN
Mr. Patrick Condon
Mr. Martin Fox
Mr. David Kent Jnr
Mr. Eamonn O'Brien
Mr. Don Whelan

COURTBRACK
Mr. Vincent Buckley
Mr. Timothy McSweeney

DARRAGH
Mr. James Condon
Mr. Thomas Hyland

DONERAILE
Mr. Michael Duane
Ms. Elizabeth Sheehan

DONOUGHMORE
Mr. Liam Buckley
Mr. Fintan McSweeney

DROMBANNA
Mr. William Hickey
Mr. John O'Brien
Mr. William Walsh

DROMTARIFFE
Mr. Peter Duggan
Mr. Eamonn Tarrant

GALBALLY
Mr. Michael Donovan
Vacancy

GARRYSPILLANE
Mr. John P. Tobin
Vacancy

GLANWORTH
Mr. Denis Joyce
Ms. Mary Twomey-Casey

GLOSHA/ REARCROSS
Mr. Roger Keogh
Mr. Eamonn O'Toole

GRANAGH/MILTOWN
Mr. Vincent Griffin
Mr. Gerard Kennedy

HOLLYFORD
Mr. Vincent Carr

HOSPITAL/KILTEELY/ SARSFIELD
Mr. Patrick Hanley
Mr. Liam O'Carroll

INCHIGEELA/ TEERGAY
Mr. Donal Creedon

KILBEHENNY
Mr. William O'Doherty
Mr. Martin Russell

KILCORNEY
Mr. John Browne
Mr. Tim Leader

KILDORRERY
Mr. Robert Drake
Mr. John Walsh

KILLOWEN/ MOSSGROVE
Mr. John Canty
Mr. Don McSweeney

KILLUMNEY
Mr. Jerome Desmond
Mr. Thomas M. Griffin

KILNAMARTYRA
Mr. Brendan Hinchion
Mr. Jerry O'Riordan

KILROSS
Mr. Daniel Hogan
Mr. John O'Neill

KILWORTH
Mr. John Clancy
Mr. Michael Gowen

KNOCKADEA
Mr. John W. Coughlan
Mr. John A. Fox

KNOCKLONG/ GORMANSTOWN
Mr. Geoffrey Walsh

LISSARDA
Mr. Richard Hinchion
Mr. Sean MacSweeney

LOMBARDSTOWN
Mr. Frank O'Connor
Mr. Michael O'Hanlon
Mr. Peter Twomey

MALLOW
Mr. Colman Cronin
Mr. John Kenny

MILLSTREET/ BALLYDALY
Mr. Diarmuid Corkery
Vacancy

MOGEELY
Mr. John Dunne
Mr. Liam Lane
Mr. Edmund C. Lynch
Mr. Patrick Millerick
Mr. Denis O'Brien
Mr. Sean O'Brien
Mr. Maurice Smiddy

MOURNEABBEY
Mr. Derry Cronin
Mr. John Fitzgerald

MUSKERRY
Mr. Daniel P. O'Donovan

NEWMARKET-ON- FERGUS
Mr. Kieran Woods

NORTH TIPPERARY
Mr. Michael Darcy

OOLA
Mr. Gerard O'Dwyer

OUTRATH
Mr. Matthew McEniry
Mr. Martin Moloney
Mr. John O'Donnell
Mr. Thomas Prendergast
Mr. Thomas Ryan

PARK
Mr. Kevin Galvin
Mr. Matthew Hurley
Mr. Barry O'Connor
Mr. Michael J. Riordan

RATHDUFF
Mr. John Aherne
Mr. Teddy Buckley

RUSHEEN
Mr. Sean Corkery

SHINAUGH
Mr. Felix O'Neill

SHOUNLARAGH/ TOGHER
Mr. Donal O'Donovan

TEMPLEMARTIN
Mr. Michael P. Murphy

TERELTON/TOAMES
Mr. John Joe Kelleher
Mr. Liam O'Riordan

TOURNAFULLA/ MEENAHELA
Mr. Denis Aherne
Mr. Maurice Curtin
Mr. Donal Fitzgerald

Statement of Board Responsibilities

The Industrial and Provident Societies Acts, 1893 to 2014, require the Board to provide for the preparation of financial statements, in accordance with accounting standards generally accepted in Ireland including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102), for each financial year which gives a true and fair view of the state of affairs of the Society and of the result of the Society for that period. In preparing those financial statements, the Board shall cause:

- suitable accounting policies to be selected and applied consistently;
- reasonable and prudent judgements and estimates to be made;
- the financial statements to be prepared on a going concern basis.

The Board confirms that it has complied with the above requirements in preparing the financial statements. In accordance with Rule 63 of the Society's rules, the Board shall cause proper books of account and records to be kept as are necessary to give a true and fair view of the Society's business and affairs. The Board is also responsible for safeguarding the assets of the Society and shall cause reasonable steps to be taken to provide adequate protection in this regard.

On behalf of the Board:

James Lynch

James Lynch
Chairman

14 March 2017

John O'Gorman

John O'Gorman
Vice Chairman

14 March 2017

Independent Auditor's Report

to the Members of Dairygold Co-Operative Society Limited

Report on the financial statements

Our opinion

In our opinion, Dairygold Co-Operative Society Limited's group financial statements (the "financial statements"):

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

What we have audited

The financial statements comprise:

- the group statement of financial position as at 31 December 2016;
- the group income statement for the year then ended;
- the group statement of comprehensive income for the year then ended;
- the group statement of changes in equity for the year then ended;
- the group statement of cash flows for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

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

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

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Board of Directors

As explained more fully in the Statement of Board Responsibilities set out on page 26, the Board of Directors are responsible for the preparation of the financial statements giving a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with section 13 of the Industrial and Provident Societies Act, 1893 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditor's Report

to the Members of Dairygold Co-Operative Society Limited

What an audit of financial statements involves

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

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

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

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

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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Limerick

23 March 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
TURNOVER	2	**756,065**	784,869
Cost of sales		**(580,405)**	(610,995)
Gross Profit		**175,660**	173,874
Operating costs		**(139,653)**	(133,348)
Grant amortisation		**1,614**	1,402
Intangible asset amortisation		**(3,085)**	(2,831)
Depreciation		**(20,082)**	(20,597)
Change in fair value of investment properties		**3,002**	713
Operating Profit before Restructuring Costs	3	**17,456**	19,213
Restructuring costs	4	**(1,213)**	-
Operating Profit after Restructuring Costs		**16,243**	19,213
Share of gains/(losses) of joint ventures		**293**	(260)
Share of gains of associates		**11**	32
PROFIT on ordinary activities before investment income, interest and taxation		**16,547**	18,985
Net losses in financial assets at fair value through profit and loss	5	**(3,642)**	(4,274)
Interest payable and similar charges	6	**(6,337)**	(5,756)
Interest receivable and similar income	6	**286**	279
PROFIT on ordinary activities before taxation		**6,854**	9,234
Taxation charge on profit on ordinary activities	8	**(921)**	(946)
PROFIT after taxation		**5,933**	8,288
Attributable to:			
Non-controlling interests	28	**311**	442
Owners of the parent entity		**5,622**	7,846
PROFIT for the financial year		**5,933**	8,288

The above results are derived from continuing operations.

On behalf of the Board:

James Lynch
Chairman

14 March 2017

John O'Gorman
Vice Chairman

14 March 2017

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Profit for the financial year		**5,933**	8,288
Share of joint ventures' reserves movements	*11*	**29**	(126)
Exchange differences on retranslation of subsidiary undertakings		**(5,055)**	1,272
Return on plan assets (excluding amounts included in net interest cost)	*24*	**14,883**	7,141
Experience gains arising on pension scheme liabilities	*24*	**6,995**	1,208
Changes in assumptions underlying the present value of pension scheme liabilities	*24*	**(27,515)**	5,692
Deferred tax associated with movement on defined benefit pension scheme	*23*	**801**	(1,902)
Total other comprehensive (expense)/income		**(9,862)**	13,285
Total comprehensive (expense)/income for the year		**(3,929)**	21,573
Total comprehensive (expense)/income for the year attributable to:			
Non-controlling interests	*28*	**311**	442
Owners of the parent entity		**(4,240)**	21,131
		(3,929)	21,573

Consolidated Statement of Financial Position

as at 31 December 2016

	Notes	2016 €'000	2015 €'000
FIXED ASSETS			
Intangible assets	*9*	**5,990**	7,596
Tangible assets	*10*	**233,300**	263,485
Investment properties	*10*	**32,628**	12,019
Financial assets:			
Investments in joint ventures	*11*	**5,848**	5,639
Investments in associates	*12*	**390**	382
Other investments	*13*	**39,554**	44,138
		317,710	333,259
CURRENT ASSETS			
Stocks	*14*	**132,389**	129,250
Debtors	*15*	**94,187**	107,676
Cash at bank and in hand	*30*	**1,269**	4,394
		227,845	241,320
CREDITORS falling due within one year	*16*	**(124,528)**	(141,334)
NET CURRENT ASSETS		**103,317**	99,986
TOTAL ASSETS LESS CURRENT LIABILITIES		**421,027**	433,245
CREDITORS falling due after more than one year	*17*	**(93,880)**	(104,121)
PROVISION FOR LIABILITIES AND CHARGES			
Capital grants	*22*	**(9,746)**	(9,894)
Deferred taxation	*23*	**(3,434)**	(3,771)
NET ASSETS excluding pension (liability)/asset		**313,967**	315,459
PENSION (LIABILITY)/ASSET	*24*	**(6,346)**	66
NET ASSETS		**307,621**	315,525
CAPITAL AND RESERVES			
Share capital	*25*	**88,980**	93,127
Bonus reserve	*27*	**1,000**	-
Profit and loss account	*27*	**214,087**	219,087
EQUITY attributable to the owners of the parent entity		**304,067**	312,214
Non-controlling interests	*28*	**3,554**	3,311
TOTAL CAPITAL EMPLOYED		**307,621**	315,525

On behalf of the Board:

James Lynch

John O'Gorman

James Lynch
Chairman

14 March 2017

John O'Gorman
Vice Chairman

14 March 2017

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Notes	Share capital €'000	Bonus reserve €'000	Profit and loss account €'000	Shareholders' equity €'000	Non-controlling interests €'000	Total equity €'000
At 1 January 2015		**94,124**	**-**	**198,973**	**293,097**	**3,039**	**296,136**
Profit for the year				7,846	7,846	442	8,288
Other comprehensive income				13,285	13,285		13,285
Total comprehensive income for the year		-	-	21,131	21,131	442	21,573
Share interest	26			(1,177)	(1,177)		(1,177)
Dividends paid	28					(170)	(170)
Issue of ordinary shares including conversions	25	931			931		931
Shares redeemed	25	(1,525)			(1,525)		(1,525)
Shares cancelled	25	(403)		160	(243)		(243)
At 31 December 2015		**93,127**	-	**219,087**	**312,214**	**3,311**	**315,525**
Profit for the year				5,622	5,622	311	5,933
Other comprehensive income				(9,862)	(9,862)		(9,862)
Total comprehensive income for the year		-	-	(4,240)	(4,240)	311	(3,929)
Share interest	26			(1,164)	(1,164)		(1,164)
Dividends paid	28					(68)	(68)
Issue of ordinary shares including conversions	25	20			20		20
Shares redeemed	25	(2,189)			(2,189)		(2,189)
Shares cancelled	25	(1,978)		1,404	(574)		(574)
Transfer from profit and loss account to bonus reserve			1,000	(1,000)	-		-
At 31 December 2016		**88,980**	**1,000**	**214,087**	**304,067**	**3,554**	**307,621**

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Net cash inflow from operating activities	29	**32,066**	31,487
Investing activities			
Interest received		**-**	11
Payments to acquire intangible fixed assets		**(1,479)**	(569)
Payments to acquire tangible fixed assets		**(16,525)**	(51,797)
Payments to acquire financial fixed assets		**(3,524)**	(4,087)
Receipts on disposal of tangible fixed assets		**305**	217
Receipts on disposals of financial fixed assets		**4,742**	3,744
Capital grants received	22	**1,466**	2,528
Net cash flow from investing activities		**(15,015)**	(49,953)
Financing activities			
(Decrease)/increase in long term loans		**(10,000)**	25,700
Repayments of capital element of finance leases		**(554)**	(227)
Movement in net bank debt		**(10,554)**	25,473
Equity share interest paid		**(1,386)**	(1,275)
Dividends paid to non-controlling interests	28	**(68)**	(170)
Interest paid		**(5,951)**	(5,234)
Issue of share capital	25	**20**	931
Redemption of shares	25	**(1,844)**	(1,230)
Redemption of convertible stock	20	**(3)**	-
Loan notes		**-**	598
Revolving fund		**-**	832
Redemption of loan stock	21	**(390)**	(525)
Net cash flow from financing activities		**(20,176)**	19,400
(Decrease)/increase in cash and cash equivalents		**(3,125)**	934
Cash and cash equivalents at 1 January		**4,394**	3,460
Cash and cash equivalents at 31 December	30	**1,269**	4,394

Statement of Accounting Policies

The significant accounting policies adopted by the Society are summarised below. They have been applied consistently throughout the year.

General information and basis of accounting:

Dairygold Co-Operative Society Limited is a society registered in Ireland under the Industrial and Provident Societies Acts, 1893 to 2014. The registered office is Clonmel Road, Mitchelstown, Co. Cork.

The financial statements have been prepared in accordance with accounting standards issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland and the Industrial and Provident Societies Acts, 1893 to 2014.

The financial statements have been prepared in compliance with Financial Reporting Standard 102 ("FRS 102").

The financial statements are prepared under the historical cost convention modified to include certain items at fair value.

The Society's functional currency and presentational currency is considered to be euro. This is the currency of the primary economic environment that the Society operates in.

Basis of Consolidation:

The consolidated financial statements incorporate:

a) the financial statements of Dairygold Co-Operative Society Limited ("the Society") and its subsidiaries for the year ended 31 December 2016;

b) the Society's share of the results and post-acquisition reserves of joint ventures and associates as reported in the latest audited financial statements. This is to 31 December 2015 for these joint ventures and associates;

c) any material adjustments for joint ventures (arising between the date of their latest financial statements as above and the year end of the Society) and consequently Co-Operative Animal Health Limited and The Malting Company of Ireland Limited results are incorporated to 31 December 2016; and

d) any material differences between the Society's accounting policies and that of its joint ventures and associates where required.

The results of subsidiaries, joint ventures and associates acquired or disposed of are included in or excluded from the financial statements from the effective date of acquisition or disposal.

The interests of non-controlling shareholders in subsidiary companies reflect their proportion of the net assets of the relevant subsidiaries.

The results of overseas subsidiary companies are translated into euros at the average rate for the year. The assets and liabilities of overseas subsidiary companies have been consolidated at the rate of exchange on the consolidated statement of financial position date. Exchange differences arising on the retranslation of the opening statement of financial position of overseas subsidiary companies together with differences in exchange rates on the translation of the income statement are recognised in the consolidated statement of comprehensive income.

All intra–group transactions, balances, income and expenses are eliminated on consolidation.

Going Concern:

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Review together with the Financial Overview. The Society's forecasts and projections taking account of possible changes in trading performance show that the Society should be able to operate within the level of its current facilities.

The Society meets its day to day working capital requirement through banking facilities in place which were renewed in December 2016. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue Recognition:

Turnover is measured at the fair value of the consideration received/receivable for the sale of goods to external customers net of value added tax, rebates and discounts.

The Society recognises turnover when the amount can be reliably measured, when it is probable that future economic benefit will flow to the Society and when specific criteria have been met for each of the Society's activities.

Turnover from sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. This generally arises on delivery or in accordance with specific terms and conditions agreed with customers.

Rebates and discounts are provided for based on agreements or contracts with customers and accumulated experience. Rebates and discounts are recorded in the same period as the original turnover.

The timing of recognition of service turnover equals the timing of when the services were rendered.

Statement of Accounting Policies

Property sales are recognised when unconditional contracts of sale of the properties are in place, no significant obligations are remaining and the resulting receivable is collectable.

The Society rents out a number of properties and turnover comprises revenues from property letting exclusive of value added tax and discounts. Rental income is recognised in the consolidated income statement in the period to which it relates.

When the expected receipt of turnover is deferred beyond normal credit terms, then it is discounted back to its present value.

Dividends are recognised when the right to receive payment is established.

Share Trading:

Accounting for Transactions

Investment transactions are initially accounted for on the trade date at transaction price. Subsequently, they are measured at fair value through profit and loss except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

If a reliable measure of fair value is no longer available, the equity instrument's fair value on the last date the instrument was reliably measurable is treated as the cost of the instrument.

Investment Income and Expenses

Dividends are recognised as income on the dates that securities are first quoted "ex-dividend" to the extent information thereon is reasonably available to the Society. Interest income is recognised by the Society on an accruals basis. Income from quoted companies is stated gross of withholding tax.

Financial Instruments:

The Society has chosen to apply the provisions of Section 11 and 12 of FRS 102 to account for all of its financial instruments.

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the consolidated statement of financial position when and only when, there exists a legally enforceable right to set off the recognised amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Statement of Accounting Policies

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit and loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) control of the financial asset has been transferred to another party who has the practical ability to unilaterally sell the financial assets to an unrelated third party without imposing additional restrictions.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments
Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value with changes in fair value recognised through profit and loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

Equity Instruments
Equity instruments issued by the Society are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Convertible Loan Notes
The convertible loan notes issued by the Society are classified as financial liabilities in accordance with the substance of the contractual arrangement.

Derivative Financial Instruments
The Society uses forward foreign currency contracts to reduce exposure to foreign exchange risk and not for speculative purposes. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit and loss at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Fair Value Measurement
The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Financing Costs:

Financing costs are amortised in equal annual instalments over the term of the relevant financing facility.

Discount Factor:

When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability or asset. The risks specific to the liability shall be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation.

Intangible Assets and Amortisation:

Costs incurred on the acquisition of computer software are capitalised as intangible assets, as are costs directly associated with developing computer software programmes. Computer software costs recognised as assets are written off over their estimated useful lives by equal annual instalments at the following annual rates:

Computer software	7.5% - 33.3%

Intangible fixed assets are reviewed for impairment if there is an indication that the intangible fixed asset may be impaired.

Tangible Fixed Assets and Depreciation:

Tangible fixed assets are carried at cost less accumulated depreciation. Cost comprises the purchase price including legal and brokerage fees, import duties, any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management, including non-refundable purchase taxes after deductions made for discounts and rebates. Own costs are capitalised where relevant and where the criteria for capitalisation is met.

Depreciation is calculated to write off the cost of tangible fixed assets less estimated residual value, other than freehold land and tangible fixed assets in the course of construction, over their estimated useful lives by equal annual instalments at the following annual rates:

Buildings	2.0% - 10.0%
Plant and machinery	6.6% - 33.3%
Motor vehicles	12.5% - 25.0%

Statement of Accounting Policies

Tangible fixed assets in the course of construction are carried at cost less any recognised impairment loss. Depreciation of these assets commences when they are commissioned and available for use.

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount (being the higher of its fair value less costs to sell and its value in use). Fair value less costs to sell is defined as the amount obtainable from the sale of an asset in an arms length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is defined as the present value of the future cash flows obtainable through continued use of an asset including those to be realised on its eventual disposal. Repairs, maintenance and minor inspection costs are expensed as incurred.

Development Assets
Development fixed assets held for their development potential or sale, are valued at historical cost, less depreciation and any impairment. Development assets principally comprise of land.

Investment Properties
Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the consolidated income statement.

Retirement of Assets
The fixed asset register is reviewed to identify assets that are no longer in use. These assets are retired from the fixed asset register on an on-going basis.

Derecognition of Assets
Tangible fixed 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 consolidated income statement.

Leased Assets:

Assets held under finance leasing arrangements that transfer substantially all the risks and rewards of ownership are capitalised in the consolidated statement of financial position at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease term and the asset's useful life. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is charged to the consolidated income statement so as to produce a constant periodic charge on the remaining balance of the liability.

Operating leases do not transfer substantially all the risks and rewards of ownership to the lessor.

Rentals in respect of operating leases are charged in the consolidated income statement on a straight line basis over the lease term.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Financial Fixed Assets:

Associated and Joint Venture Undertakings
An associate undertaking is an entity, being neither a subsidiary nor a joint venture, in which the Society has a significant interest in the equity capital and over which it is able to exercise significant influence. Joint venture undertakings are those undertakings in which the Society has a joint interest in the equity capital and over which it jointly exercises control. The Society's interests are stated at cost, plus its share of post-acquisition reserves, less provision for permanent diminution in value.

Joint ventures and associates are accounted for using the equity method. The Society's share of the profits or losses of joint ventures and associates are included in the consolidated income statement. The Society's interests in their net assets are included as fixed asset investments in the consolidated statement of financial position at an amount representing the Society's share of the fair values of the net assets at acquisition plus the Society's share of post-acquisition retained profits or losses.

Unquoted Financial Assets
Investments in unquoted financial assets are those in which the Society does not exercise a significant or participating interest. The Society's interest in these undertakings is stated at cost, less provision for diminution in value.

A provision is made for impairment in value, particularly in the case where impairment is evidenced by losses crystallised post year end. This is reassessed on a yearly basis.

Stocks:

Stocks are valued at the lower of cost and estimated selling price less costs to sell. Stocks are recognised as an expense in the financial year in which the related revenue is recognised.

Cost in the case of raw materials, goods for resale and expense stocks comprise the purchase price including transport and other directly attributable costs less discounts and rebates receivable.

Statement of Accounting Policies

These are valued on a first-in, first-out basis.

Cost in the case of work-in-progress and finished goods comprises direct material and labour costs and an appropriate proportion of manufacturing overhead based on normal production levels. These are valued using the weighted average cost formula.

Estimated selling price less costs to sell represents the estimated selling price less costs to completion and all appropriate holding, selling and distribution expenses.

Provision is made for obsolete, slow moving or defective items where appropriate.

Taxation:

Current tax, including Irish corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position date.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Society intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred Taxation:

Deferred taxation is provided in respect of all timing differences that have originated but not reversed at the consolidated statement of financial position date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax. Timing differences are differences between the Society's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is provided on fair value adjustments in respect of non-trading quoted shares and investment properties.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is considered that it is more likely than not that there will be suitable future taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the consolidated statement of financial position date.

Deferred tax liabilities are recognised for timing differences arising from investments in associates, except where the Society is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

The tax expense or income is presented in the same component of the consolidated income statement or the consolidated statement of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Capital Grants:

Grants receivable in respect of tangible fixed assets are included in the financial statements when the amounts have been ascertained and are released to the consolidated income statement in equal annual instalments over the expected useful lives of the relevant assets.

Revenue Grants:

Revenue based grants are accounted for in the year in which the related expenditure is incurred and are dealt with directly through the consolidated income statement.

Provisions:

A provision is recognised when the Society has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are charged against the profits of the Society, reviewed at each consolidated statement of financial position date and adjusted to reflect current best estimate. Where material, provisions are discounted.

Contingencies:

Contingent liabilities, arising as a result of past events, are not recognised as a liability because it is possible but not probable that the entity will be required to transfer economic benefits in settlement of the obligation or the amount cannot be reliably measured at the end of the financial year. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Research and Development:

Expenditure on research and development is written off to the consolidated income statement in the year in which it is incurred. Research and development tax credits are recognised on an accruals basis in the tax charge in the consolidated income statement.

Foreign Currencies:

Foreign currency transactions entered into by entities during the year have been translated at the foreign exchange rates at the time of these transactions.

Monetary assets and liabilities arising in foreign currencies have been retranslated at the foreign exchange rates at the consolidated statement of financial position date.

Statement of Accounting Policies

Exchange differences have been included in the consolidated income statement for the year, with the exception of exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the consolidated statement of comprehensive income.

Employee Benefits:

Short Term Benefits
Short term benefits, including wages and salaries, paid holiday arrangements and other similar non-monetary benefits are recognised as an expense in the financial year in which employees provide the related service. The Society operates a variable pay scheme for employees. An expense is recognised in the consolidated income statement when the Society has a present legal or constructive obligation to make payments under the scheme as a result of past events and a reliable estimate of the obligation can be made.

Defined Benefit Pension Plan
The Society operates a defined benefit pension plan for certain employees. The liability recognised in the consolidated statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of each financial year less the fair value of the plan assets at that date.

The present value of the defined benefit obligation is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in euro and that have terms approximating the estimated period of the future payments ("discount rate").

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period, the cost of the plan introductions, benefit changes, settlements and curtailments. These are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to the consolidated income statement and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit asset) are recognised in the consolidated statement of comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Society, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. Actuarial valuations are obtained at least triennially and are updated at each financial position date.

Defined Contribution Plan
The Society operates a defined contribution plan for certain employees. A defined contribution plan is a pension plan under which the Society pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The assets of the plan are held separately from the Society in independently administered funds.

For defined contribution pension schemes the amounts charged to the consolidated income statement in respect of pension costs and other post-retirement benefits, are the contributions payable in the year. Differences between the contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the consolidated statement of financial position.

Where the Society is a participating employer in a multi-employer defined benefit pension scheme and its share of the underlying assets and liabilities cannot be identified on a consistent and reasonable basis, the scheme is accounted for as a defined contribution scheme.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty:

In the application of the Society's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

Critical Judgements in Applying the Society's Accounting Policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Society has made in the process of applying the Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Statement of Accounting Policies

a) Revaluation of Investment Properties

The Society carries its investment properties at fair value, with changes in fair value being recognised in the consolidated income statement. The Society engaged independent professional commercial property consultants to determine the fair value at 31 December 2016. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

b) Pension Benefits

The cost of the defined benefit pension scheme is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country.

The Society made the decision only to pay discretionary benefits when the fund is in surplus and not to pay discretionary pension increases when the fund is in deficit. This has been communicated to the scheme Trustees. This discretionary increase assumption reflects the decision by the Society to only consent to discretionary increases when the scheme is in surplus, up to the cap of inflation. Further details are given in note 24.

Key Sources of Estimation Uncertainty

The following estimates have had the most significant effect on amounts recognised in the financial statements:

a) Discount Factor in Calculating Present Values

A discount factor is used in the calculation of the present value of some of the assets and liabilities. This discount factor is based on management's estimation of the market rate of interest for similar assets/liabilities.

b) Provisions

Provisions are recognised when the Society has a present obligation (legal or constructive) as a result of a past event, it is probable that the Society 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. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). Examples of these are provisions for obsolete, slow moving or defective item of stocks, provisions for bad debts and onerous contractual obligations.

c) Stock

Included in note 3 is the impairment of stock recognised as an expense. Estimated selling price less costs to sell represents the Society's best estimate of the realisable value that will be achieved in the market less costs in relation to completion and all appropriate holding, selling and distribution expenses.

d) Useful Economic Lives of Intangible and Tangible Fixed Assets

The useful economic lives of intangible and tangible assets are key assumptions concerning the future at the reporting date. The useful economic lives and the residual values are reviewed annually. They are amended when necessary to reflect current estimates based on technological advancement, future investment, economic utilisation and physical condition of the assets. See notes 9 and 10 for the carrying amount of intangible and tangible assets.

e) Deferred Taxation

Management estimation is required to determine the amount of the deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 23.

Notes to Financial Statements

for the year ended 31 December 2016

1. Financial management

The conduct of its ordinary business operations necessitates the Society holding and issuing financial instruments and derivative financial instruments. The main risks arising from issuing, holding and managing these financial instruments typically include currency risk, interest rate risk, price risk, liquidity and cash flow risk and credit risk. The Society's approach is to centrally manage these risks against comprehensive policy guidelines, which are summarised below.

The Society does not engage in holding or issuing speculative financial instruments or derivatives. The Society finances its operations by a mixture of retained profits, short to medium-term committed borrowings, member funding and short-term uncommitted borrowings. The Society borrows in a number of currencies at floating rates of interest and uses derivatives where appropriate to generate the desired effective currency profile. Risk management, other than price risk management, is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies and evaluates the financial risks in close cooperation with the Society's business units. The Board provides principles for overall risk management covering areas such as liquidity risk, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity. For further details regarding the Society's financial instruments, see note 36.

Market risk

(a) Currency risk

Although the Society is based in Ireland with the euro as the functional currency, it has geographic investment and operating exposures outside the eurozone. As a result, currency movements, particularly movements in the sterling/euro exchange rate and US dollar/euro exchange rate, can affect the Society's consolidated statement of financial position and consolidated income statement. The Society also has transactional currency exposures that arise from sales or purchases by an operating unit in currencies other than the unit's operating functional currency. Group Treasury assists Society entities in managing their foreign exchange risk against their functional currency. Society entities are required to hedge material foreign exchange risk exposure through Group Treasury. Group Treasury monitors and manages these currency exposures on a continuous basis, using appropriate currency derivative instruments.

Between 31 December 2016 and 1 January 2017, if the euro had weakened/strengthened by 5% against the US dollar and sterling with all other variables held constant, post-tax profit for the year would not have been materially impacted as a result of foreign exchange gains/losses on translation of US dollar and sterling denominated hedged trade receivables.

(b) Interest rate risk

The Society's objective in relation to interest rate management is to minimise the impact of interest costs in order to protect reported profitability. This is achieved by determining a strategy against a number of policy guidelines in consultation with our professional advisors, which focus on:

(a) the amount of floating rate indebtedness anticipated over such a period; and

(b) the consequent sensitivity of interest costs to interest rate movements on this indebtedness and the resultant impact on reported profitability.

The Society borrows at floating rates of interest and constantly reviews the resulting exposure to interest rate fluctuations.

(c) Price risk

The Society is exposed to share price risk because of investments held by the Society in listed and unlisted shares on the consolidated statement of financial position. The Acquisition and Investments Committee has a role in monitoring and managing this risk. The impact of a 5% increase or decrease in listed equity prices at year end would have resulted in a €1.7 million gain/loss (2015: €1.9 million gain/loss).

Notes to Financial Statements

for the year ended 31 December 2016

1. Financial management (continued)

(d) Liquidity and cash flow risk

The Society's objective is to maintain a balance between the continuity of funding and flexibility through the use of borrowings with a range of maturities. In order to preserve the continuity of funding, the Society's policy is that, at a minimum, committed facilities should be available at all times to meet the full extent of its anticipated finance requirements, arising in the ordinary course of business, during the succeeding 12 month period. This means that at any time the lenders providing facilities in respect of this finance requirement are committed up to the date of renewal of such facilities. For further details regarding the Society's borrowing facilities, see note 18.

(e) Credit risk

Credit risk is managed on a Society wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Society's credit risk management policy in relation to trade receivables involves continuously assessing the financial reliability of customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored and credit risk is covered by credit insurance.

Capital risk management

The Society's objectives when managing capital are to safeguard the Society's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated based on equity as shown in the consolidated statement of financial position which amounted to €307.6 million (2015: €315.5 million).

In order to maintain or adjust the capital structure, the Society may adjust the amount of share interest paid to shareholders, return capital to shareholders, issue new shares or sell assets to increase or reduce debt.

The Society monitors debt on the basis of interest cover and debt to EBITDA ratios. At 31 December 2016, the Society's net debt/adjusted EBITDA ratio was 2.28 times (2015: 2.38 times), which is deemed by management to be satisfactory. Adjusted EBITDA for the purpose of financing ratios is as per the Society's financing agreements.

Notes to Financial Statements

for the year ended 31 December 2016

2. Turnover

	2016 €'000	2015 €'000
Turnover: group and share of joint ventures'	**777,911**	806,004
Less: share of joint ventures' turnover	**(21,846)**	(21,135)
Group turnover	**756,065**	784,869
Geographical analysis by destination:		
Ireland	**276,512**	338,104
United Kingdom	**132,352**	143,263
Rest of Europe	**180,085**	170,557
Rest of World	**167,116**	132,945
	756,065	784,869
Principal activities by class of business:		
Food ingredients	**539,675**	559,088
Agri business	**211,706**	221,207
Financial and property	**4,684**	4,574
	756,065	784,869
Analysis of turnover by category:		
Sale of goods	**738,517**	767,224
Rendering of services	**12,532**	12,757
Others including sale of shares and property activities	**5,016**	4,888
	756,065	784,869

3. Operating profit before restructuring costs

	2016 €'000	2015 €'000
Operating profit before restructuring costs is stated after charging/(crediting):		
Research and development expenditure	**1,705**	1,821
Foreign exchange loss/(gain)	**482**	(1,407)
Amortisation of intangible assets - Note 9	**3,085**	2,831
Depreciation of tangible fixed assets - Note 10	**20,082**	20,597
Impairment of plant and machinery (included in operating costs) - Note 10	**-**	86
Reversal impairment of plant and machinery (included in operating costs) - Note 10	**-**	(342)
Capital grants amortisation - Note 22	**(1,614)**	(1,402)
Cost of stock recognised as an expense	**580,405**	610,995
Impairment of stock recognised as an expense - Note 14	**3,200**	10,400

Notes to Financial Statements

for the year ended 31 December 2016

4. Restructuring costs

	2016 €'000	2015 €'000
Restructuring costs	**1,213**	-

The restructuring costs are associated with the right-sizing of retail store operations and the alignment of work practices throughout the retail division.

5. Net losses in financial assets at fair value through profit and loss

	2016 €'000	2015 €'000
Losses on shares measured at fair value - Note 13	**3,642**	4,274

6. Finance costs

	2016 €'000	2015 €'000
Interest payable and similar charges:		
Bank interest payable and similar charges	**(6,090)**	(5,141)
Net interest payable and similar charges relating to pensions - Note 24	**-**	(303)
Unwinding of the discount factor for provisions	**(184)**	(219)
Share of joint ventures' net interest payable	**(63)**	(93)
	(6,337)	(5,756)
Interest receivable and similar income:		
Bank interest receivable	**-**	11
Net interest receivable and similar income relating to pensions - Note 24	**43**	-
Unwinding of the discount factor for receivables	**243**	268
	286	279

7. Payroll costs

	2016 Number	2015 Number
The weekly average number of employees:		
Dairygold Food Ingredients	**654**	615
Dairygold Agri Business	**537**	534
	1,191	1,149
Payroll costs comprise:	**€'000**	€'000
Wages and salaries	**54,210**	52,429
Social welfare costs	**5,501**	5,318
Other retirement benefit costs	**4,430**	1,767
	64,141	59,514

Notes to Financial Statements

for the year ended 31 December 2016

8. Taxation charge on profit on ordinary activities

Tax expense included in the consolidated income statement	2016 €'000	2015 €'000
Corporation tax:		
Irish tax	**(336)**	(964)
Foreign tax	**(564)**	(242)
	(900)	(1,206)
Prior year provision movement:		
Irish tax	**551**	(99)
Foreign tax	**(55)**	-
	496	(99)
Tax charge	**(404)**	(1,305)
Share of associates' tax	**-**	-
Share of joint ventures' tax	**(53)**	25
Total corporation tax	**(457)**	(1,280)
Deferred tax (charge)/credit - Note 23:		
Origination and reversal of timing differences	**(464)**	334
Total tax	**(921)**	(946)

Tax credit/(charge) relating to items recognised in the consolidated statement of comprehensive income

The tax credit/(charge) is made up as follows:

Deferred tax associated with movement on the defined benefit pension scheme - Note 23	**801**	(1,902)

Reconciliation of tax charge

The tax assessed for the year is different from the standard rates of corporation tax in the Republic of Ireland for the financial year ended 31 December 2016 of 12.5% (2015: 12.5%). The differences are explained as follows:

Profit on ordinary activities before taxation	**6,854**	9,234
Tax on profit on ordinary activities at standard Irish corporation tax rate	**(857)**	(1,154)
Effects of:		
Expenses (not deductible)/allowable for tax purposes	**(274)**	105
Research and development tax credits	**50**	100
Excess/(deficit) depreciation over capital allowances	**153**	(532)
Income subject to higher tax rates (non-trading income)	**(131)**	(142)
Non taxable income	**6**	12
Losses brought forward	**496**	571
Share of joint ventures' tax	**(53)**	25
Chargable gain	**(26)**	-
Income Tax	**(20)**	-
Adjustments in respect of previous periods	**496**	(99)
Higher tax rates (overseas)	**(297)**	(166)
Deferred tax - origination and reversal of timing differences	**(464)**	334
Taxation charge on profit on ordinary activities	**(921)**	(946)

Notes to Financial Statements

for the year ended 31 December 2016

9. Intangible assets

Software Development Costs	2016 €'000	2015 €'000
Cost		
At 1 January	**23,084**	22,515
Additions	**1,479**	569
At 31 December	**24,563**	23,084
Amortisation		
At 1 January	**15,488**	12,657
Charged during the year	**3,085**	2,831
At 31 December	**18,573**	15,488
Net Book Value		
At 31 December	**5,990**	7,596

Notes to Financial Statements

for the year ended 31 December 2016

10. Tangible assets

	Land & buildings €'000	Development assets €'000	Plant & machinery €'000	Motor vehicles €'000	Construction In Progress €'000	Total €'000
COST						
At 1 January 2015	127,188	17,176	233,372	5,458	67,542	450,736
Additions	4,281	-	10,117	540	12,489	27,427
Reclassification	5,470	-	(5,470)	-	-	-
Impairment	-	-	(83)	(3)	-	(86)
Reversal of impairment	-	-	342	-	-	342
Disposals	(1,412)	-	(25,090)	(80)	-	(26,582)
Transferred to Investment Properties	-	(937)	-	-	-	(937)
Transferred from CIP	22,491	-	(871)	-	(21,620)	-
Translation adjustments	316	-	728	1	-	1,045
At 31 December 2015	158,334	16,239	213,045	5,916	58,411	451,945
Additions	5,160	313	893	545	1,499	8,410
Disposals	(32)	-	(3,407)	(51)	-	(3,490)
Transferred to Investment Properties	(2,761)	(14,400)	-	-	-	(17,161)
Transferred from CIP	23,015	-	35,086	-	(58,101)	-
Translation adjustments	(679)	-	(2,030)	(1)	-	(2,710)
At 31 December 2016	**183,037**	**2,152**	**243,587**	**6,409**	**1,809**	**436,994**
DEPRECIATION						
At 1 January 2015	40,430	-	149,629	3,527	-	193,586
Charged during year	3,860	-	16,083	654	-	20,597
Relating to disposals	(906)	-	(25,396)	(63)	-	(26,365)
Translation adjustments	118	-	523	1	-	642
At 31 December 2015	43,502	-	140,839	4,119	-	188,460
Charged during year	4,683	-	14,683	716	-	20,082
Relating to disposals	(7)	-	(3,130)	(48)	-	(3,185)
Translation adjustments	(280)	-	(1,382)	(1)	-	(1,663)
At 31 December 2016	**47,898**	**-**	**151,010**	**4,786**	**-**	**203,694**
NET BOOK VALUE						
At 31 December 2016	**135,139**	**2,152**	**92,577**	**1,623**	**1,809**	**233,300**
At 31 December 2015	**114,832**	**16,239**	**72,206**	**1,797**	**58,411**	**263,485**

Included in disposals for the year are retirements of fixed assets which are no longer in use, with a net book value of €nil. These assets had a total cost and related accumulated depreciation of €3 million (2015: €25 million).

None of the land and buildings at the year end are assets held under finance leases (2015: €2.1 million).

Notes to Financial Statements

for the year ended 31 December 2016

10. Tangible assets (continued)

INVESTMENT PROPERTIES	2016 €'000	2015 €'000
VALUATION		
At 1 January	**12,019**	10,369
Additions	**446**	-
Transfer from tangible assets	**17,161**	937
Revaluations	**3,002**	713
At 31 December	**32,628**	12,019

Investment properties are stated at open market value at 31 December 2016. The Directors have taken appropriate independent advice from Power and Associates, professional commercial property consultants and have taken into account general market indicators when considering the valuation of investment property assets at 31 December 2016. Investment properties held abroad were valued by local valuers in previous years with the requisite knowledge in local industry. These valuations, along with general market conditions in the locality were reviewed by Power and Associates at 31 December 2016. The appropriateness of such valuations has been considered by the Society and it is satisfied that the valuation of investment properties located abroad are materially correct at 31 December 2016.

11. Investment in joint ventures

	2016 €'000	2015 €'000
Share of net assets - 1 January	**5,502**	5,863
Share of net results	**177**	(235)
Share of joint ventures' reserve movements	**29**	(126)
Share of net assets - 31 December	**5,708**	5,502
Loans to joint ventures - Note 32	**140**	137
Balance	**5,848**	5,639

The joint ventures have been included in the financial statements at the cost of the investment plus the Society's share of post acquisition reserves and adjusted for any dividends received.

Details of the joint ventures are included in Note 35 to these financial statements.

12. Investment in associates

	2016 €'000	2015 €'000
Share of net assets - 1 January	**382**	350
Share of net results	**8**	32
Balance	**390**	382

The associates have been included in the financial statements at cost of the investment plus the Society's share of post-acquisition reserves and adjusted for any dividends received.

Details of the associate is included in Note 35 to these financial statements.

Notes to Financial Statements

for the year ended 31 December 2016

13. Other investments

	2016 €'000	2015 €'000
UNQUOTED		
Shares at cost - 1 January	**395**	444
Additions	**7**	32
Disposals	**(7)**	(81)
Shares at cost - 31 December	**395**	395
QUOTED		
Shares at fair value - 1 January	**38,384**	41,782
Additions	**3,517**	3,209
Disposals	**(3,797)**	(2,333)
Decrease in fair value quoted shares	**(3,642)**	(4,274)
Shares at fair value - 31 December	**34,462**	38,384
LOAN STOCK		
Loan stock at fair value - 1 January	**5,359**	5,809
Additions	**34**	615
Redemptions	**(938)**	(1,330)
Unwinding of the discount factor	**242**	265
Loan stock at fair value - 31 December	**4,697**	5,359
TOTAL	**39,554**	44,138

In the opinion of the Board of Directors, the value of the unquoted investments is not less than that shown above.

Fair value in respect of the quoted financial assets was determined with reference to the quoted market price at the reporting date. Where quoted prices were unavailable, the price for a recent transaction for an identical asset was referenced in determining fair value.

The loan stock refers to unconverted loan stock received from Ornua based on the Society's trading activity with it.

14. Stocks

	2016 €'000	2015 €'000
Raw materials	**11,862**	17,630
Finished goods	**101,626**	91,046
Goods for resale	**14,976**	16,412
Expense stocks	**3,925**	4,162
	132,389	129,250

There is no material difference between the above amounts and the replacement cost of stocks.

The amount expensed in the period in respect of stocks, whereby the estimated selling price less costs to sell was lower than the cost, was €3.2 million (2015: €10.4 million).

Notes to Financial Statements

for the year ended 31 December 2016

15. Debtors falling due within one year

	2016 €'000	2015 €'000
Trade debtors	**55,408**	87,201
Other debtors	**8,225**	-
Derivative financial instruments - Note 36	**133**	-
Prepayments and accrued income	**26,749**	15,260
Amounts due from related parties	**1,645**	2,368
Corporation tax	**511**	-
VAT	**1,516**	2,847
	94,187	107,676

The invoice discounting facility of €70 million is secured on certain trade debtors. All debtor values are shown in the consolidated statement of financial position at their gross value.

The Society, through the use of a debtor factoring arrangement, has transferred substantially all of the credit risk and derecognised €24.1 million (2015: €nil) of trade debtors at year end.

16. Creditors falling due within one year

	2016 €'000	2015 €'000
Bank loans, invoice discounting and overdrafts - Note 18	**8,000**	7,500
Obligations under finance leases - Note 19	**-**	554
Trade creditors	**42,560**	54,356
Derivative financial instruments - Note 36	**-**	95
Provisions, accruals and deferred income	**69,652**	74,314
Amounts due to related parties	**2,090**	2,208
Corporation tax	**69**	381
PAYE and PRSI	**1,849**	1,519
Loan stock - Note 21	**308**	407
	124,528	141,334

17. Creditors falling due after more than one year

	2016 €'000	2015 €'000
Bank loans - Note 18	**82,000**	92,500
Loan notes (including interest accrued) - Note 18	**2,662**	2,568
Revolving fund (including interest accrued) - Note 18	**8,536**	8,353
Corporation tax	**139**	208
Convertible stock - Note 20	**219**	222
Loan stock - Note 21	**324**	270
	93,880	104,121

Notes to Financial Statements

for the year ended 31 December 2016

18. Loans

	2016 €'000	2015 €'000
Loans repayable, included within creditors, are analysed as follows:		
Wholly repayable within five years:		
Bank loans falling due within one year	**8,000**	7,500
Bank loans falling due between one and two years	**8,000**	92,500
Bank loans falling due between two and five years	**74,000**	-
Loan notes (including interested accrued)	**2,662**	2,568
Not wholly repayable within five years:		
Revolving fund (including interest accrued)	**8,536**	8,353
	101,198	110,921

The above loans are repayable as follows:	Bank Loans €'000	Loan Notes €'000	Revolving Fund €'000
Year ending 31 December 2017	8,000		
Year ending 31 December 2018	8,000	1,614	
Year ending 31 December 2019	8,000	472	
Year ending 31 December 2020	8,000	576	3,896
Year ending 31 December 2021	58,000		4,010
Year ending 31 December 2022			630
	90,000	**2,662**	**8,536**

Bank Loans

The Society has entered into bank guarantees on behalf of its subsidiaries. The amounts guaranteed at the consolidated statement of financial position date were €90 million (2015: €100 million) and they are secured by fixed and floating charges on the assets of the Society and its subsidiaries.

The interest rate applying to the bank loans is EURIBOR plus a margin of between 1.5% to 3.1%.

The terms of the bank loans restrict the Society from making significant acquisitions or disposals without the consent of the banks.

Loan Notes

Members were offered the opportunity to invest on a voluntary basis in a loan note. The scheme commenced in 2013 and ran for three years. Members who subscribed to the loan note will be repaid their investment in full plus accumulated interest on the fifth anniversary of their investment. The interest rate applying to the loan note is 3 month EURIBOR plus 4%. Interest is accrued on an annual basis.

Revolving Fund

The revolving fund is a compulsory mechanism by which Milk Suppliers contribute to the funding of the Society with monies contributed repaid in full, together with accumulated interest when the period expires. Contributions will be made over seven years from 2013 to 2019, with a maximum of sixty monthly deductions over the seven year period. The interest rate applying to contributions is 3 month EURIBOR plus 2.5%. Interest is accrued on an annual basis.

Members funding contributions were discontinued in 2015 and 2016 in accordance with scheme terms and conditions.

Notes to Financial Statements

for the year ended 31 December 2016

19. Obligations under finance leases

	2016 €'000	2015 €'000
Falling due within one year	**-**	554
	-	554

The terms of the finance lease restrict the Society from disposing of the asset held under the lease.

20. Convertible stock

	2016 €'000	2015 €'000
At 1 January	**222**	222
Stock redeemed	**(3)**	-
At 31 December	**219**	222

'A' convertible stock can be converted into ordinary shares based on conditions set out in the rules of the Society and subject to agreements at the time of the stock issue.

21. Loan stock

	2016 €'000	2015 €'000
At 1 January	**677**	907
Arising on share redemption - Note 25	**345**	295
Loan stock repayment	**(390)**	(525)
At 31 December	**632**	677
Falling due within one year - Note 16	**308**	407
Falling due after more than one year - Note 17	**324**	270

22. Capital grants

	2016 €'000	2015 €'000
At 1 January	**9,894**	8,768
Received during the year	**1,466**	2,528
Credited to profit and loss account	**(1,614)**	(1,402)
At 31 December	**9,746**	9,894

Grants of €18,775,000 (2015: €17,436,000) which have been received under agreements between the Society, its subsidiaries, Enterprise Ireland and the European Agricultural Guidance and Guarantee Fund may become repayable should certain circumstances set out in the agreements occur.

Notes to Financial Statements

for the year ended 31 December 2016

23. Deferred taxation

	2016 €'000	2015 €'000
At 1 January	**3,771**	2,203
Charged/(credited) to Consolidated Income Statement - Note 8	**464**	(334)
(Credited)/charged to Consolidated Statement of Comprehensive Income - Note 8	**(801)**	1,902
At 31 December	**3,434**	3,771

An analysis of the deferred tax balance is as follows:		
Timing differences	**2,618**	1,976
Unutilised tax losses	**(2,082)**	(1,402)
Tax on increase in market value of quoted shares	**2,594**	3,020
Tax on revaluation of investment properties	**1,097**	169
Tax on defined benefit pension (deficit)/surplus	**(793)**	8
At 31 December	**3,434**	3,771

The Society had an unrecognised deferred tax asset of €809,000 (2015: €1,564,000) at the end of the year. This asset has not been recognised due to uncertainty surrounding the timing of future profits.

24. Pension (liability)/asset

Dairygold Pension Schemes

The Society operates and contributes to a number of externally funded defined benefit and defined contribution pension schemes in Ireland.

Dairygold Co-Operative Society Limited Pension Plan 2010

This is a defined benefit pension plan which was established as a result of the merger of four defined benefit pension plans sponsored by the Society. The accounting calculations reported herein relate to this plan and are based on accounting policies, actuarial methods and assumptions which are consistent with the requirements of FRS 102 and were selected by the Society having taken advice from Mercer, who are the Society's professional pension service providers.

The cash contributions payable to the plan are determined from a full actuarial valuation undertaken by the Scheme Actuary at intervals not exceeding three years. The last such valuation of the plan was undertaken as at 1 January 2016 in accordance with generally accepted actuarial principles and assumptions. The principal assumptions used in the valuation of accrued liabilities were that investment return would exceed future general salary inflation by 2.25% per annum and pension increases by 0.25% per annum in respect of existing pensioners and 1.0% per annum in respect of future pensioners. At the effective date of that valuation, the value of the assets was €276 million which was sufficient to cover approximately 101.5% of the benefits that had accrued to Members, after allowing for future expected increases in pensionable remuneration. The valuation report is not available for public inspection.

The main financial assumptions employed in the accounting valuation as at 31 December 2016 are:

	2016	2015
Inflation rate increase	**1.50%**	1.50%
General payroll rate increase	**1.80%**	1.80%
Pension payment increase	**1.00%**	1.20%
Discount rate	**1.90%**	2.60%

Notes to Financial Statements

for the year ended 31 December 2016

24. Pension (liability)/asset (continued)

Interest income on plan assets:
Interest income on plan assets for 2017 will be determined using an interest rate of 1.90% which is derived from the discount rate from the previous year end.

Discount rate assumption:
In setting the discount rate, as with all other assumptions, the Society obtained independent actuarial advice from Mercer. The discount rate is set by reference to the yield on high (AA rated) quality bonds denominated in euro with duration equivalent to the duration of the liabilities.

Mercer has advised that the discount rate selected of 1.90% (2015: 2.60%) reflects the market yield on high quality corporate bonds at 31 December 2016. They have confirmed that they are satisfied that the approach taken is in accordance with the requirements of FRS 102.

Discretionary benefits assumption:
The Society made the decision only to pay discretionary benefits when the fund is in surplus and not to pay discretionary pension increases when the fund is in deficit. This has been communicated to the scheme Trustees. This discretionary increase assumption reflects the decision by the Society to only consent to discretionary increases when the scheme is in surplus, up to the cap of inflation.

Mortality assumptions:
Membership of the Society's pension plan is too small to allow a statistical analysis of mortality experience suitable for facilitating a scheme specific projection of future experience. In the circumstances, standard mortality tables have been employed. These tables include allowance for projected future improvements in mortality rates.

The assumption adopted in the accounting calculations is consistent with that which the Scheme Actuary adopted in the full funding valuation and also with statistics published by the Society of Actuaries in Ireland. They incorporate an allowance for expected future mortality improvements in line with Central Statistics Office projections. These assumptions would be regarded by Mercer to be a "best estimate" and they are in line with those adopted by most Irish public limited companies.

The assumed life expectations on retirement at age 65 are noted below.

Weighted average life expectancy:

	As at 31 December 2016		As at 31 December 2015	
	Male	**Female**	Male	Female
Members age 65 (current life expectancy)	**22.9**	**24.9**	22.8	24.8
Members age 45 (life expectancy from age 65)	**25.1**	**27.2**	25.0	27.1

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	**Change in assumption**	**% Impact on scheme liabilities**
Discount rate	Increase by 0.5%	Decrease by 9.2%
Rate of inflation	Increase by 0.5%	Increase by 7.5%
Rate of salary growth	Increase by 0.5%	Increase by 2.1%
Rate of mortality	Members live for 1 year longer	Increase by 3.0%

Plan assets

The weighted average asset allocation at the year end was as follows:

	2016	2015
Equities	**45.9%**	49.7%
Bonds	**47.3%**	44.2%
Properties	**6.8%**	6.0%
Cash	**0.0%**	0.1%
	100%	100%

Notes to Financial Statements

for the year ended 31 December 2016

24. Pension (liability)/asset (continued)

The plan assets have not been invested in any of the Society's own financial instruments nor in properties or other assets used by the Society.

The overall (deficit)/surplus in the scheme at 31 December is:

	2016	2015
	€'000	€'000
Equities	**134,710**	137,168
Bonds	**138,714**	121,958
Property	**20,007**	16,569
Cash	**70**	419
Fair value of assets	**293,501**	276,114
Present value of scheme liabilities	**(299,847)**	(276,048)
Closing pension (liability)/asset	**(6,346)**	66

The amounts included within operating profit of the consolidated income statement for the year are as follows:

	2016	2015
	€'000	€'000
Cost arising from employee service in the reporting period	**3,282**	4,114
Loss/(gain) on curtailments/changes	**254**	(419)
Gains on settlements	**(348)**	(3,033)
Administrative expenses	**644**	515
Total charged within operating profit	**3,832**	1,177

The amounts included within finance charges of the consolidated income statement for the year are as follows:

	2016	2015
	€'000	€'000
Interest income on plan assets	**7,119**	5,837
Interest on past service scheme liabilities	**(7,076)**	(6,140)
Net interest receivable/(payable) and similar income/(charges) relating to pension	**43**	(303)

The analysis of amounts recognised in the consolidated statement of comprehensive income are as follows:

	2016	2015
	€'000	€'000
Return on plan assets (excluding amounts included in net interest cost)	**14,883**	7,141
Experience gains arising on the pension scheme liabilities	**6,995**	1,208
Changes in assumptions underlying the present value of pension scheme liabilities	**(27,515)**	5,692
Remeasurement gains and losses recognised in other comprehensive income	**(5,637)**	14,041

Notes to Financial Statements

for the year ended 31 December 2016

24. Pension (liability)/asset (continued)

Movement in pension scheme assets:	**2016 €'000**	2015 €'000
Value at 1 January	**276,114**	269,043
Return on assets	**7,119**	5,837
Return on plan assets (excluding amounts included in net interest cost)	**14,883**	7,141
Employer contributions	**3,014**	2,657
Plan participants' contributions	**1,264**	1,284
Benefit payments and expenses	**(8,893)**	(9,848)
Value at 31 December	**293,501**	276,114

Movement in pension scheme liabilities:	**2016 €'000**	2015 €'000
Value at 1 January	**(276,048)**	(284,195)
Cost (excluding interest):		
(i) Net cost arising from employee service in the reporting period	**(3,536)**	(3,695)
(ii) Gains on curtailments/changes/introductions/settlements	**348**	3,452
Interest expense	**(7,076)**	(6,140)
Cash flows		
(i) Benefit payments from plan assets	**7,052**	7,140
(ii) Participant contributions	**(1,264)**	(1,284)
(iii) Insurance premiums for risk benefits	**475**	238
(iv) Settlement payments	**722**	1,536
Remeasurements		
(i) Effect of the changes in the assumptions	**(27,515)**	5,692
(ii) Effect of experience adjustments	**6,995**	1,208
Value at 31 December	**(299,847)**	(276,048)

Irish Co-Operative Societies Pension Scheme

The Society also participates in an industry wide Irish Co-Operative Societies Pension Scheme. This is a multi-employer defined benefit scheme. However, as the underlying assets and liabilities attributable to individual employers cannot be identified on a consistent and reasonable basis, the Society is accounting for the pension scheme as if it were a defined contribution scheme in accordance with FRS 102. The charge in the consolidated income statement in respect of this plan was €207,000 (2015: €146,000).

A Section 50 application, submitted to the Pensions Authority on 2 February 2015, was approved on 10 March 2015 and members were advised of the implications to their individual pension entitlements. A valuation, with an effective date of 1 July 2014 was concluded in March 2015. The valuation reflected the revised benefits following the Section 50 application. It indicated that, on the basis of the method and assumptions employed, the Scheme's assets were sufficient to provide for 100% of the Scheme's accrued liabilities. The last Actuarial Funding Certificate and Funding Standard Reserve Certificate for the Scheme were completed as at 8 April 2015, following the receipt of the Section 50 direction. These certificates confirmed that the Scheme satisfied both the Funding Standard and Funding Standard Reserve requirements at that effective date.

Pension Cost

The total pension cost charged to the operating profit was €4,430,000 (2015: €1,767,000) which comprised of €3,832,000 (2015: €1,177,000) in respect of the defined benefit pension scheme, as noted above and €598,000 (2015: €590,000) in respect of the defined contribution schemes (which includes €207,000 (2015: €146,000) regarding the Irish Co-Operative Societies Pension Scheme noted above). Valuations have been performed in accordance with the requirements of FRS 102, as at 31 December 2016. Scheme liabilities have been calculated using a consistent projected unit valuation method and compared to the scheme's assets at the valuation date.

Notes to Financial Statements

for the year ended 31 December 2016

25. Share capital

Ordinary shares of €1 each	**2016**	2015
	€'000	€'000
Issued and fully paid		
At 1 January	**93,127**	94,124
Shares issued	**20**	931
Shares redeemed	**(2,189)**	(1,525)
Shares cancelled - in accordance with Rule 14	**(574)**	(243)
Shares cancelled - in accordance with Rule 15	**(1,404)**	(160)
At 31 December	**88,980**	93,127

	2016	2015
	€'000	€'000
Cash paid	**(1,844)**	(1,230)
Arising as loan stock - Note 21	**(345)**	(295)
Shares redeemed	**(2,189)**	(1,525)

From 2013 onwards, the Society has accelerated the payment of the value of shares redeemed, whereby the value of shares redeemed up to €5,000 or 40% of such value, if greater, is paid in cash in that year. The balance is transferred to a loan stock account, which is being paid in equal instalments over the following three years.

In common with other Societies incorporated under the Industrial and Provident Societies Acts, 1893 to 2014, the Society does not have an authorised share capital. The Society rules make provision for the issue of shares at the discretion of the Board and for the issue of convertible stock and loan stock. Any issues have taken place at par.

Minimum Shareholding

Since January 2013, all Milk Suppliers are required to acquire and maintain a minimum shareholding in the Society of 4.0 cent per litre of milk supply (4,000 shares per 100,000 litres of milk supply). A shareholding monthly deduction of 0.5 cent per litre is charged to Milk Suppliers whose shareholding is below the threshold based on their previous calendar years milk supply.

A Milk Supplier is not required to make a contribution to Minimum Shareholding when the Dairygold quoted milk price is less than 30.0 cent per litre (VAT inclusive), in any given month.

26. Share interest

	2016	2015
	€'000	€'000
Share interest paid @ 1.25% (2015: 1.25%)		
Ordinary share capital	**(1,164)**	(1,177)
	(1,164)	(1,177)

The Board has recommended that share interest of 1.25% be paid on the share capital in issue at 31 December 2016. This will amount to €1,112,000 (2015: €1,164,000) and is subject to approval at the Annual General Meeting.

Notes to Financial Statements

for the year ended 31 December 2016

27. Reserves

The profit and loss account reserve represents the cumulative profits and losses of the Society.

The transfer from the profit and loss account reserve to the bonus reserve is in accordance with Rules 77 and 78 of the Society, which allows for the establishment of a reserve from which allocations of fully paid-up bonus shares in the Society may be made.

28. Non-controlling interests

	2016 €'000	2015 €'000
At 1 January	**3,311**	3,039
Profit after tax	**311**	442
Dividends paid	**(68)**	(170)
At 31 December	**3,554**	3,311

29. Reconciliation of operating profit to net cash inflow from operating activities

	2016 €'000	2015 €'000
Operating profit before restructuring costs	**17,456**	19,213
Amortisation of intangible assets	**3,085**	2,831
Depreciation	**20,082**	20,597
Capital grants amortisation	**(1,614)**	(1,402)
EBITDA	**39,009**	41,239
Impairment of fixed assets	**-**	86
Reversal of impairment of fixed assets	**-**	(342)
Profit on the revaluation of investment properties	**(3,002)**	(713)
Present valuing of turnover	**12**	231
Difference between current service pension cost and payments made	**818**	(1,480)
Cash related to restructuring	**(1,075)**	-
Working capital movements		
Increase in stocks	**(3,139)**	(12,880)
Decrease/(increase) in debtors	**14,000**	(9,286)
(Decrease)/increase in creditors	**(9,253)**	15,671
Foreign exchange differences	**(4,008)**	869
Taxation		
Corporate income tax paid	**(1,296)**	(1,908)
Net cash inflow from operating activities	**32,066**	31,487

Notes to Financial Statements

for the year ended 31 December 2016

30. Cash and cash equivalents

	2016	2015
	€'000	€'000
Cash and bank balances	**1,269**	4,394

31. Capital commitments

Future investments and capital expenditure approved by the Board and not provided for in these financial statements amounted to €16,534,340 (2015: €13,896,451).

32. Related party transactions

The Society's related parties, as defined by FRS 102, the nature of the relationships and the extent of transactions with them are summarised below. The Society views key management personnel, Directors, close members of their family and companies controlled by them, joint venture undertakings, associate undertakings and non-wholly owned subsidiaries as related parties under the standard.

The Society purchases goods and services from its joint ventures and associates and sells goods and services to its joint ventures and associates on standard commercial terms. The purchases from and sales to the joint ventures and associates during 2016 amounted to €9,777,000 (2015: €9,867,000) and €4,370,000 (2015: €3,482,000) respectively. The trading balances outstanding by and to the Society amounted to €1,769,000 (2015: €1,953,000) and €624,000 (2015: €1,051,000) respectively at the year end. The Society has provided a loan of €140,000 (2015: €137,000) to its joint venture, The Malting Company of Ireland Limited.

The Society purchases and sells goods and services from and to a non-wholly owned subsidiary, Munster Cattle Breeding Group Limited and its subsidiaries, on standard commercial terms. During 2016 the purchases from and sales to Munster Cattle Breeding Group Limited amounted to €12,000 (2015: €12,000) and €572,000 (2015: €614,000) respectively. The trading balances outstanding by and to the Society amounted to €39,000 (2015: €7,000) and €63,000 (2015: €219,000) respectively at the year end.

In the ordinary course of business the Society trades on standard commercial terms with some key management and Directors (including close family members) in their capacity as farmers, and with companies which are considered related to the Society by virtue of common Directors or close family members of some management and/or Directors having control or joint control over these companies. The aggregate level of purchases from and sales to these related parties during the year amounted to €14,020,000 (2015: €18,980,000) and €7,733,000 (2015: €7,294,000) respectively. The trading balances outstanding by and to the Society amounted to €321,000 (2015: €254,000) and €1,021,000 (2015: €1,317,000) respectively at the year end. No specific reserve has been required in 2016 (2015: €Nil) for bad or doubtful debts in respect of amounts owed by these related parties. In addition, a son of one of the Directors of the Society is employed on a part time basis by the Society in the Agri Business Division on standard terms of employment for that Division.

Directors and close family members of the Society, in aggregate, had loan note balances of €125,000 (2015: €120,000) and revolving fund balances of €79,000 (2015: €74,000) owing to them at the year end, both inclusive of accrued interest.

Payments made by the Society to the pension schemes are included in Note 24. No amounts were prepaid or owing to the schemes at the end of the year.

Notes to Financial Statements

for the year ended 31 December 2016

32. Related party transactions (continued)

Reox Holdings plc

Reox Holdings Plc is a former associate of the Society whereby the Society held more than 25% of that shareholding in that company.

At an extraordinary general meeting of Reox Holdings Plc on 7 November 2014, the Shareholders passed a resolution that Reox Holdings Plc was to be wound up via members' voluntary liquidation.

On 31 August 2016, the Society received a final distribution of €411,000 from Reox Holdings Plc.

On 9 March 2017, a final meeting was held of Reox Holdings Plc to complete the members' voluntary liquidation.

Key Management Personnel Remuneration

The following sets out the key management remuneration of €2,722,000 (2015: €3,105,000) analysed between the Senior Leadership Team and the Board of Directors:

	2016	2015
	Number	Number
Senior Leadership Team	**8**	9
	€'000	€'000
Basic salaries	**1,429**	1,668
Performance related pay	**270**	297
Other emoluments	**196**	209
Employer's PRSI	**215**	246
Employer's pension and retirement fund contributions	**229**	262
	2,339	2,682

	2016	2015
	Number	Number
Board of Directors	**12**	12
	€'000	€'000
Directors' fees	**383**	423

33. Contingent liabilities

Certain sales to Ornua are based on "on account" prices and are subject to adjustment when the prices are finally agreed. Provision is made as and when required for future deficits in the product categories.

The Society has guaranteed the liabilities for the financial year ended 31 December 2016 of its Irish subsidiaries and as a result they are exempt from filing their individual accounts under the provisions of Section 357 of the Companies Act, 2014.

34. Non-adjusting post balance sheet events

Dairygold Co-Operative Society Limited has an investment in Aryzta AG which had a fair value of €17,292,000 at 31 December 2016. Aryzta AG issued a profit warning to investors on 24 January 2017 and as a result the share price of Aryzta AG fell. The Society's investment has reduced in value to €12,661,000 by 13 March 2017.

Notes to Financial Statements

for the year ended 31 December 2016

35. Principal operating subsidiaries, joint ventures and associates

Subsidiaries	Country of Incorporation	% Holding	Activity
Agricola Properties Limited	Ireland	100.0%	Property
Dairygold Agri Business Limited	Ireland	100.0%	Procuring, distributing and retailing of agri and non agri supplies and farm inputs
Dairygold Deutschland Handlesgesellschaft mbH	Germany	100.0%	Sales & distribution
Dairygold Finance Designated Activity Company	Ireland	100.0%	Finance company
Dairygold Food Ingredients Limited	Ireland	100.0%	Dairy ingredients
Dairygold Food Ingredients (U.K.) Limited	U.K.	100.0%	Dairy ingredients
Munster Cattle Breeding Group Limited	Ireland	66.0%	AI and farm services
Watfore Limited	Ireland	100.0%	Property

Joint Ventures	Country of Incorporation	% Holding	Activity
Co-Operative Animal Health Limited	Ireland	50.0%	Farm services
The Malting Company of Ireland Limited	Ireland	50.0%	Malting

Associates	Country of Incorporation	% Holding	Activity
National Cattle Breeding Centre Limited	Ireland	20.0%	AI services

The Companies and Societies operate principally in the countries of incorporation. Only the principal operating subsidiaries are listed above. The names and addresses of the registered offices of all the subsidiaries, joint ventures and associates are available from the Secretary of Dairygold Co-Operative Society Limited.

Notes to Financial Statements

for the year ended 31 December 2016

36. Financial instruments

The carrying value of the financial assets and liabilities are summarised by category below:

	2016	2015
	€'000	€'000
Financial assets		
Measured at fair value through profit and loss		
Investments in listed equity instruments - Note 13	**34,462**	38,384
Forward foreign currency contracts - Note 15	**133**	-
Debt instruments measured at amortised cost		
Convertible loan stock - Note 13	**4,697**	5,359
Measured at undiscounted amounts receivable		
Trade debtors - Note 15	**55,408**	87,201
Amounts due from related undertakings - Note 15	**1,645**	2,368
Equity instruments measured at cost less impairment		
Investments in unlisted equity instruments - Note 13	**395**	395
Financial liabilities		
Measured at fair value through profit and loss		
Forward foreign currency contracts - Note 16	**-**	(95)
Measured at amortised cost		
Bank loans - Note 18	**(90,000)**	(100,000)
Revolving fund - Note 18	**(8,536)**	(8,353)
Loan notes - Note 18	**(2,662)**	(2,568)
Loan stock - Note 21	**(632)**	(677)
Obligations under finance leases - Note 19	**-**	(554)
Convertible stock - Note 20	**(219)**	(222)
Measured at undiscounted amounts payable		
Trade and other creditors - Note 16	**(42,560)**	(54,356)
Amounts due to related parties - Note 16	**(2,090)**	(2,208)

The Society enters into forward foreign currency exchange contracts to mitigate the exchange rate risk for certain foreign currency sales. At 31 December 2016, the outstanding contracts all mature within 8 months (2015: 9 months) of the end of the financial year. The Society is committed to sell US$4,031,000 (2015: US$7,872,000) and £114,000 (2015: £271,000) and receive a fixed euro amount.

The forward foreign currency exchange contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs.

The fair values of the assets and liabilities held at fair value through profit and loss at the consolidated statement of financial position date are determined using quoted prices.

Notes to Financial Statements

for the year ended 31 December 2016

36. Financial instruments (continued)

The Society's income, expense, gains and losses in respect of financial instruments are summarised below:

	2016 €'000	2015 €'000
Interest Income		
Total interest income for financial assets at amortised cost - Note 6	**243**	268
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through profit and loss - Note 13	**(3,642)**	(4,274)

37. Future operating lease income

	2016 €'000	2015 €'000
The total future minimum lease receipts under non-cancellable operating leases are as follows:		
Leases that expire:		
- within one year	**34**	69
- between one and five years	**1,136**	103
- after five years	**11,853**	10,385
At 31 December	**13,023**	10,557

38. Restatement of comparatives

Certain prior year figures included within the financial statements and related notes are reclassified to ensure comparability with the current year presentation.

39. Approval of financial statements

The financial statements were approved for issue and signed by the Board of Directors on 14 March 2017.

Five Year Historical Information

(Supplementary information not covered by the Independent Auditor's Report)

Five Year Consolidated Income Statement

	PREPARED UNDER				
	FRS 102			Old Irish GAAP	
	2016	2015	2014	2013	2012
	€'000	€'000	€'000	€'000	€'000
TURNOVER	**756,065**	784,869	848,394	847,407	731,233
OPERATING PROFIT	**17,456**	19,213	28,627	27,942	20,854
Share of joint ventures	**293**	(260)	17	(118)	-
Share of associates	**11**	32	(40)	54	(12)
Exceptional items	**(1,213)**	-	2,563	1,841	(1,841)
(Net losses)/net gains in financial assets at fair value through profit and loss	**(3,642)**	(4,274)	5,501	-	-
Net interest payable	**(6,051)**	(5,477)	(4,445)	(1,952)	(2,151)
PROFIT before taxation	**6,854**	9,234	32,223	27,767	16,850
Taxation	**(921)**	(946)	(5,335)	(2,145)	(2,494)
PROFIT after taxation	**5,933**	8,288	26,888	25,622	14,356
Non-controlling interests	**(311)**	(442)	(449)	(424)	(602)
PROFIT for the financial year	**5,622**	7,846	26,439	25,198	13,754

Five Year Consolidated Statement of Financial Position

	PREPARED UNDER				
	FRS 102			Old Irish GAAP	
	2016	2015	2014	2013	2012
	€'000	€'000	€'000	€'000	€'000
Net Assets Employed:					
Fixed assets	**317,710**	333,259	331,759	239,484	220,622
Stocks	**132,389**	129,250	116,370	109,515	88,570
Debtors	**94,187**	107,676	98,390	120,386	100,633
Current cash and bank balances					
Creditors	**(128,408)**	(144,901)	(152,639)	(129,472)	(92,419)
Net bank debt	**(88,731)**	(96,160)	(71,621)	(60,914)	(56,832)
Capital grants	**(9,746)**	(9,894)	(8,768)	(8,257)	(9,618)
Deferred taxation liability	**(3,434)**	(3,771)	(2,203)	(128)	(1,117)
Pension (liability)/asset	**(6,346)**	66	(15,152)	3,230	1,427
	307,621	**315,525**	**296,136**	**273,844**	**251,266**
Financed by:					
Shareholders' funds	**304,067**	312,214	293,097	271,254	249,100
Non-controlling interests	**3,554**	3,311	3,039	2,590	2,166
TOTAL CAPITAL EMPLOYED	**307,621**	**315,525**	**296,136**	**273,844**	**251,266**

Five Year Historical Information

(Supplementary information not covered by the Independent Auditor's Report)

Five Year Consolidated Cash Flow

	PREPARED UNDER				
	FRS 102			Old Irish GAAP	
	2016 €'000	2015 €'000	2014 €'000	2013 €'000	2012 €'000
EBITDA:					
Operating profit	**17,456**	19,213	28,627	27,942	20,854
Amortisation of intangible assets	**3,085**	2,831	2,736	1,359	1,381
Depreciation	**20,082**	20,597	17,150	18,091	17,211
Grants	**(1,614)**	(1,402)	(1,428)	(1,361)	(1,067)
EBITDA	**39,009**	41,239	47,085	46,031	38,379
Investments	**(15,015)**	(50,933)	(50,692)	(32,118)	(17,050)
Working capital	**1,608**	(6,495)	(3,879)	(12,061)	(3,680)
Finance costs	**(5,951)**	(5,223)	(4,974)	(4,342)	(4,747)
Equity share interest paid	**(1,386)**	(1,275)	(1,141)	(1,126)	(1,154)
Equity financing	**(2,285)**	(994)	299	204	(1,463)
Member funding	**-**	1,430	4,336	5,155	315
Taxation paid	**(1,296)**	(1,908)	(3,696)	(4,684)	(244)
Other	**(3,247)**	(1,249)	956	(180)	(690)
Increase/(Decrease) in cash in the year	**11,437**	(25,408)	(11,706)	(3,121)	9,666
Non cash movements	**(4,008)**	869	999	(961)	744
Movement in net bank debt	**7,429**	(24,539)	(10,707)	(4,082)	10,410
Net bank debt at 1 January	**(96,160)**	(71,621)	(60,914)	(56,832)	(67,242)
NET BANK DEBT AT 31 DECEMBER	**(88,731)**	**(96,160)**	**(71,621)**	**(60,914)**	**(56,832)**

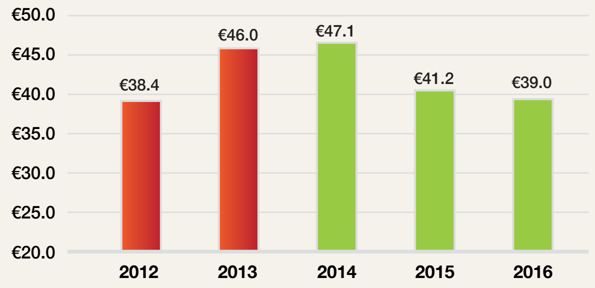
Analysis of net bank debt

	At 1 January 2016 €'000	Cash flow €'000	Non cash movement €'000	At 31 December 2016 €'000
Cash and bank balances	4,394	883	(4,008)	1,269
Finance leases	(554)	554	-	-
Bank loans due within one year	(7,500)	-	(500)	(8,000)
Bank loans due after one year	(92,500)	10,000	500	(82,000)
	(96,160)	11,437	(4,008)	(88,731)

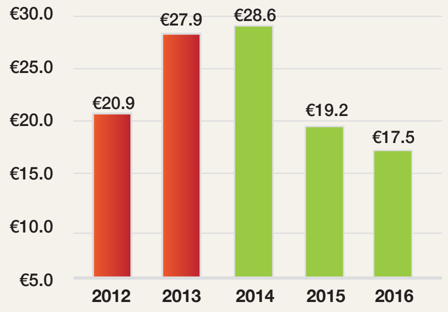
Financial Performance Overview

(Supplementary information not covered by the Independent Auditor's Report)

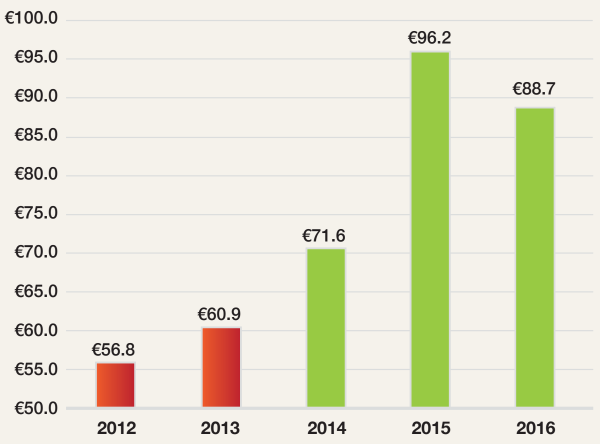
EBITDA €million



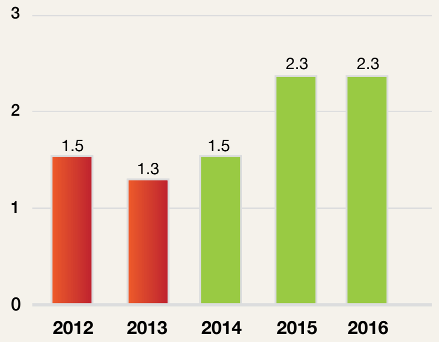
Operating Profit €million



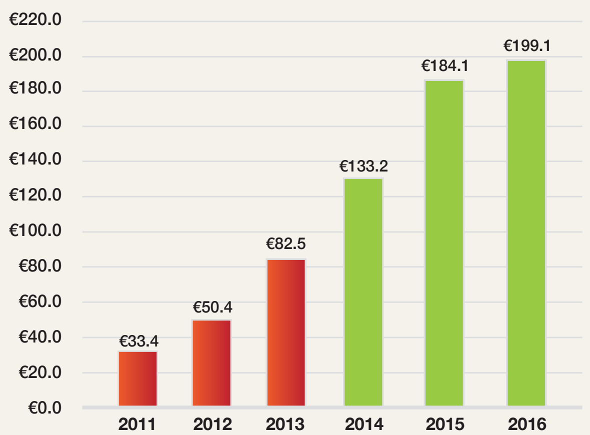
Net Bank Debt €million



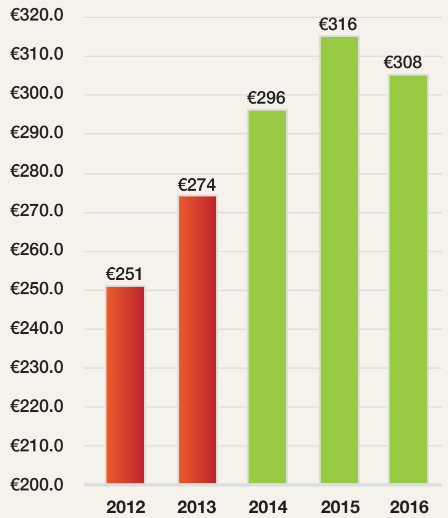
Net Bank Debt: EBITDA



Cumulative Investment €million made over the last six years



Net Asset Value €million



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