Annual Report and Financial Statements 2017

KEY HIGHLIGHTS

MILK VOLUME
1.3 BILLION litres

UP 8.3%

OPERATING PROFIT
€32.4 MILLION

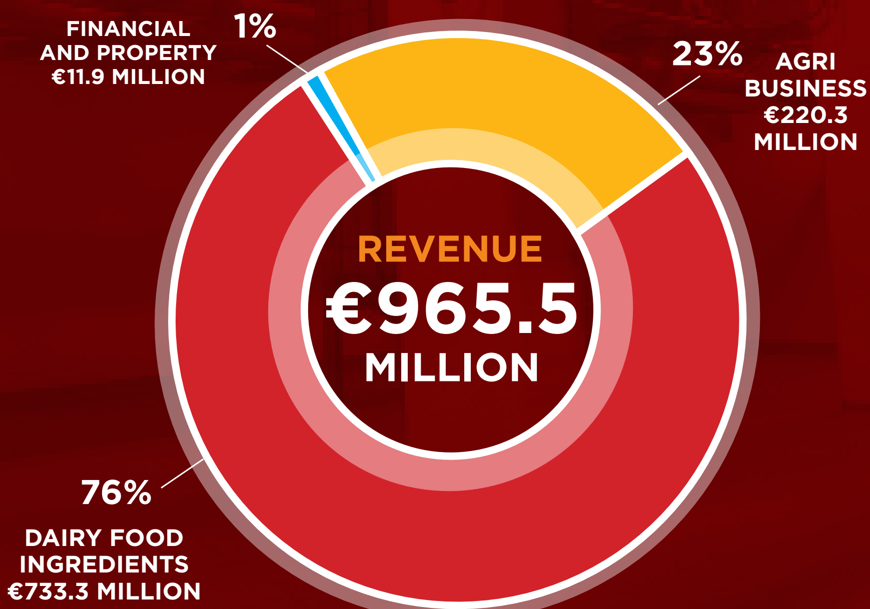
UP 85%

EMPLOYEES
1,200

INVESTMENT
IN THE LAST 5 YEARS

€162.1 MILLION

SHAREHOLDERS
7,000



NET ASSET VALUE
€335.5 MILLION

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Pictured on the front cover are Dairygold Suppliers, Joe and Tom Morrissey, Rostellan, East Cork.

CHAIRMAN'S STATEMENT

John O'Gorman, Chairman Dairygold.

In my first year as Chairman, I am pleased to report on a strong financial performance by the Society in 2017. Dairygold Members continued to fulfil their on-farm ambition encouraged by improved dairy market returns while the Society continued to evolve and strengthen its position.

Milk Production

2017 was a milestone year for Dairygold as, almost three years ahead of the Harvest 2020 target, its milk supplies exceeded 1.3 billion litres – a 55% increase on 2009 baseline volumes with supplies circa 100 million litres ahead of 2016.

Improved market returns in 2017, saw the average Dairygold quoted milk price recover to 33.3 cent per litre representing a 9.4 cent per litre increase on 2016 (23.9 cent per litre).

The dairy market in 2017 was certainly stronger but undoubtedly more volatile.

However, despite market fluctuations and weakening returns towards the end of 2017, the Society held its milk price ensuring that it did not drop at any time over 2017 - a welcome position particularly after the very challenging market conditions that prevailed in 2015 and 2016.

Dairygold Milk Suppliers continued to supply milk of excellent quality, with the average Butterfat in 2017 being 4.13% (2016: 4.16%) while the average Protein content was 3.53% (2016: 3.51%).

Milk Supplier participation in the annual Milk Volume Forecasting process continues to be a critical tool to maximise returns for Members by enabling the Society to manage the expansion of milk volumes. Forecasting gives the Society visibility of future milk supply volumes which plays a crucial role in informing Dairygold's investment decisions in relation to processing facilities and optimising product mix.

In 2017, favourable weather conditions extended across the spring, summer and early autumn to drive grass growth and milk production at farm level. However, the latter part of 2017 brought challenges with heavy rainfall and Storm Ophelia in October which wreaked havoc with devastating power outages that impacted a significant number of our Members. During this difficult time, Members demonstrated their resilience, supported by Dairygold's Supply Team and Milk Advisors.

I would like to congratulate Dairygold Suppliers, John and Maria Walsh, Ballylooby, Cahir who were the winners of the Overall Dairygold Milk Quality Award 2016. They went on to represent the Society and were crowned the overall winners of the National Dairy Council and Kerrygold Milk Quality Awards in October 2017. Congratulations also to Liam and Geraldine Herlihy, Granagh, Co. Limerick who enjoyed success last year by winning the prestigious FBD Munster Farmyard of the Year award.

Sustainable Dairying

We sincerely thank our Milk Suppliers for their ongoing commitment to and support of the Sustainable Dairy Assurance Scheme (SDAS) which is key to Dairygold's ability to demonstrate that its milk is produced sustainably which is a key prerequisite to doing business in international markets. The Society achieved a key goal in ensuring that all milk supplied in 2018 is from SDAS certified farms.

We greatly value our Milk Suppliers' dedication and tireless efforts to fulfil the requirements of the scheme which provides verification of our standards under the Origin Green programme.

To assist our Milk Suppliers in improving their environmental practices, the Society is ensuring that all possible knowledge, resources and supports are available including the Dairygold/Teagasc Joint Programme. This involves training and events, together with guidance from our experienced and dedicated Milk Advisory and Sustainability personnel.

Grain Prices

2017 was another very difficult year for cereal and grain growers with global grain prices continuing at unsustainably low levels. Dairygold is fully committed to using native grain in its feed manufacturing processes and continues to support the sector through challenging times. Dairygold demonstrated its commitment to growers by declaring a leading price for grain supplied during the 2017 harvest.

Pictured are Dairygold Suppliers, John and Maria Walsh, with their children Brendan, Claire and Helena who were crowned overall winners of the National Dairy Council and Kerrygold Milk Quality Awards in 2017.

Member Support

In line with Dairygold's ethos to maximise returns for Members, the Society sought out opportunities including the following to leverage its business relationships for the financial benefit of its Members:

Voluntary Fixed Milk Price Schemes

To help offset the impact of milk price volatility, voluntary Fixed Milk Price Schemes continue to give participating Suppliers the opportunity to manage milk price fluctuations and deliver price certainty on a fixed volume of their milk supply.

Fixed Milk Price Scheme II was introduced in 2017 and runs from 2017 to 2019. Dairygold's third and new Fixed Milk Price Scheme III will run over a three-year period from 1 March 2018 to 30 November 2020.

Dairygold Milk Supplier Charlie Terry, Cloyne, East Cork.

It offers a fixed price of 31.25 cent per litre, including VAT, set at reference milk constituents of 3.60% Butterfat and 3.30% Protein, including bonuses. Under this new scheme a Milk Supplier delivering the 2017 average Dairygold milk constituents (Butterfat and Protein) will receive an average price of 34.77 cent per litre VAT inclusive.

Buying For

Through our 'Buying For' initiative launched in 2016, Dairygold offers its Members and Shareholders the benefit of purchasing farm, home and vehicle insurance, farm and home fuels and feed bins at discounted and preferential prices. Farm Business Finance was extended to include the financing for new milk bulk tanks.

Loyalty Reward Scheme

The second year of the Loyalty Reward Scheme, which was successfully launched in 2016 to reward Customers and Members who trade with and/or supply milk to the Society, generated cash payments of €1 million with a further €1 million allocated for the issue of bonus shares to Members in 2018.

Member Up-Skilling Programme

Dairygold endeavours to provide its Members with training support that will increase their understanding of the Society, the dairy industry and markets, agricultural policies, finance and business.

Following the success of previous programmes, a further 20 Members participated in the Society's Up-Skilling Programme in 2017 attending a series of practical workshops designed to give Members insights and training to benefit their farming operations and an understanding of the Dairygold business. The Members, on completion of the programme, received certification from the Plunkett Institute in conjunction with ICOS/ Skillnet.

Dairygold/Teagasc Advisory Scheme

Dairygold continued its successful collaboration with Teagasc in 2017 providing a farm assistance programme to help Members realise their expansion goals in a profitable and sustainable manner. Circa 8,000 people attended events during the Sustainable and Profitable Expansion Programme 2014 - 2017. The Society's new programme which runs until 2020 has sustainable milk production at its core and promotes the adoption of resilient dairy systems among its Suppliers.

Minister for Agriculture, Food and the Marine, Michael Creed TD with Dairygold Chairman, John O'Gorman and Milk Supplier, Liam Herlihy pictured at the official launch of 'Leanfarm' on the Herlihy farm in Granagh, Co. Limerick following the programme's successful pilot in 2017.

Leanfarm

Having achieved significant efficiencies and financial savings through the use of lean principles in its processing and supply chain operations, the Society implemented a pilot programme in 2017 to examine if the same rewards could be achieved at farm level.

The pilot programme, carried out on Members' farms of varying scale and herd size, clearly demonstrated that the application of lean principles on-farm can deliver improvements in safety, a reduction in physical labour and have a significant positive impact on farmers' quality of life and mental wellbeing.

The pilot programme proved successful and in February this year, the Society launched the widespread roll-out of training on lean principles to its Members through Leanfarm. Dairygold Members can now avail of training on the tools and techniques of how to implement lean principles at farm-level with the ongoing support from Dairygold's Continuous Improvement and Milk Advisory teams.

Farm Safety

The number of on-farm fatalities and accidents in Ireland is a serious concern for the Society and it continues to engage in a number of initiatives to support safer farming for its Members and their families. In May 2017, Dairygold in conjunction with Teagasc, hosted a Farm Safety Day at Mallow Racecourse which was attended by 400 people. The safety day included presentations from Government agencies and key stakeholders with responsibility for safety.

I urge all Members to stay safe and be mindful of the risks to themselves and their families from their on-farm and farming practices.

Investment and Expansion

Due to the investment of €162.1 million over the last five years in the Society's processing facilities at Clonmel Road, Castlefarm, Mogeely and Mallow, Dairygold is capable of successfully processing the significant growth in milk volumes.

In September 2017, Dairygold celebrated a milestone in its history with the official opening of the Nutritionals Campus in Mallow following an €86 million investment. We were very proud to share the occasion with our Members, Staff (past and present), neighbours and invited guests over a number of events and open days at the facility. The Nutritionals Campus stands as testament to the support and ambition of our Milk Suppliers. We look forward to the next phase of investment in the Nutritionals Campus which will enable the Society to broaden its global reach with a diverse, value-added product portfolio.

The Society's proposed development in Mogeely with commercial partner, TINE SA, demonstrates its continued focus on strategic partnerships and enhanced processing capabilities. The Norwegian Co-Operative's support for the project, was demonstrated when it ratified a €77 million investment for the project in 2017. This reflected a strong vote of confidence in the Society's high quality dairy production. We await a decision from An Bord Pleanála in relation to the proposed development.

Survey

In 2017, the Society commissioned Broadmore Research and Consulting to conduct an independent and in-depth survey of Members across all regions and scale of milk supply. Knowing the plans, demands and challenges of Members is critically important and enables the Society to plan and align its services and strategies to their needs. It was very positive to see that Members' ambition remains strong with their intentions to grow their herds and milk supply. This invaluable research, together with the Members' Milk Supply Forecasting will guide the Society in its expansion and investment strategy over the next six to eight years.

The results indicated that a shortage of farm labour poses a significant threat to the future growth of dairy farming not just within Dairygold but across Ireland.

60%
OF **DAIRYGOLD'S SUPPLIERS**
INTEND TO INCREASE **MILK SUPPLY**

22%
INCREASE IN **MILK SUPPLIES** EXPECTED BETWEEN **2018** AND **2025**

10%
OF DAIRYGOLD'S MILK SUPPLIER MEMBERS ARE
UNDER 35 YEARS AND **OVER 65 YEARS**

94
IS THE AVERAGE NUMBER OF MILKING COWS
+ 26 IN-CALF HEIFERS
+ 28 HEIFER CALVES

KEY CONSTRAINTS TO EXPANSION

35%
LAND AVAILABILITY

25%
LABOUR AVAILABILITY

Community

As an organisation deeply embedded in communities, the Society was proud to support a great number of community and charity initiatives, large and small, throughout 2017.

We thank our Members for supporting our Wrap It Pink initiative again in 2017 from which over €17,500 was raised for the Irish Cancer Society. Dairygold was proud to lead the way with the innovative campaign which sees farmers across rural Ireland wrap their silage bales in pink wrap. Since the initiative was launched, the Society is pleased to have helped raise awareness of breast cancer across rural Ireland as well as raising €50,000 for this very worthy charity.

Reflecting our connection with the GAA community, Dairygold, through the online store www.coopsuperstores.ie, was also very pleased to sponsor the Munster Hurling League in both 2017 and 2018.

Pictured at the launch of Co-Op Superstores Munster Hurling League, left to right are; Dan Morrissey (Limerick), Gillian Foley, Retail Marketing Manager Co-Op Superstores, Shane O'Donnell (Clare), Jim Woulfe, CEO Dairygold and Seamus Harnedy (Cork).

Board and Management

On a personal note, I was honoured to be elected as Chairman in January 2018 and I thank our former Chairman, James Lynch for his excellent stewardship and leadership over the course of his tenure. Dairygold has had a remarkable period of growth and development that has supported its Members to realise their on-farm ambitions. I am proud to play my part in Dairygold's continued success and exciting future.

I wish to congratulate Edmund C. Lynch who was elected as Vice-Chairman in January 2018. I welcome Patrick Clancy and Maurice Curtin who were elected to the Board in 2017 to fill the positions formerly held by Patrick O'Keeffe and the outgoing Chairman, James Lynch, both of whom stepped down having served their maximum term of 10 years on the Board of the Society. James and Patrick both served with distinction and commitment, making a significant contribution to the Board during their tenure.

I would like to thank all my colleagues on the Board for their significant contribution and support. I would also like to thank the Members of the General and Regional Committees for their contribution and dedication to the Society.

I would like to express the Board's appreciation for the work of Jim Woulfe, Chief Executive, for his leadership, vision and commitment, to his Senior Management Team and all Employees for their work and dedication throughout 2017. Finally, I thank all Members and Customers for their continued loyalty and support.

Conclusion

Both the Society and its Members had a busy and positive year in 2017. The business performed very well with increased turnover and profit, while Members' returns improved compared to 2016. We celebrated key events and milestones with the opening of our best in class Nutritionals Campus in Mallow which signalled the Members' and the business' ambition for growth and higher returns through added-value. Working closely with our farmers and with further growth and investment opportunities on the horizon, together we continue to focus on the delivery of our key goal to maximise returns for Members.

John O'Gorman

John O'Gorman
Chairman Dairygold

CHIEF EXECUTIVE'S REPORT

Jim Woulfe, CEO Dairygold.

Dairygold delivered strong financial results in 2017, buoyed by a robust performance across its Dairy and Agri businesses. A solid foundation of dairy investment has delivered increased milk processing capabilities and is enabling sustained business development.

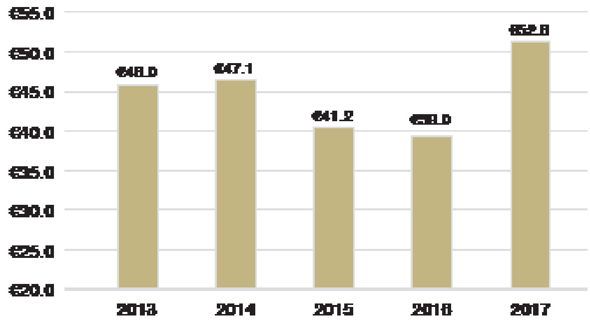
I'm pleased to report that Dairygold delivered an EBITDA of €52.8 million, an increase of €13.8 million (35%) on the prior year (2016: €39.0 million) on a turnover of €965.5 million, reflecting an increase of €209.4 million (28%) on 2016.

The operating profit for the year of €32.4 million, reflected an increase of €14.9 million (85%) compared to the prior year (2016: €17.5 million).

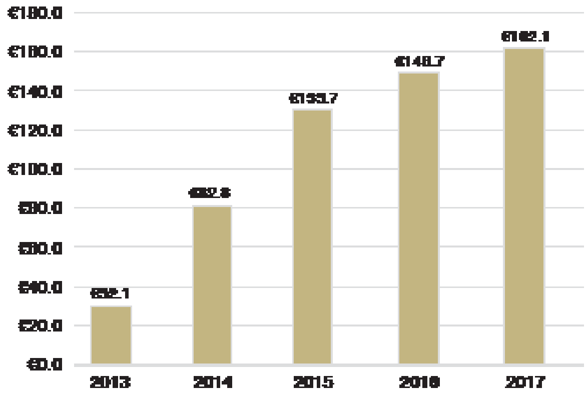
Dairygold invested €13.4 million of cash in capital projects over the year bringing the total investment over the last five years to €162.1 million. The year end net bank debt of €79.6 million decreased by 10% and remains at a manageable level given the scale of the organisation and the levels of profitability being generated.

At year end, the net asset value of the business was €335.5 million, an increase of €27.9 million on the prior year (2016: €307.6 million).

EBITDA



Cumulative investment €million over the last five years



Dairy

Markets

Dairy market returns in 2017 were significantly stronger than 2016 which was reflected in the Society's average quoted milk price of 33.3 cent per litre, an increase of 9.4 cent per litre on 2016 (23.9 cent per litre).

Milk price increases were driven by butter returns, which reached unprecedented heights of circa €7,000 per tonne on the spot market in August. In contrast, dairy protein prices continued to fall against the backdrop of the overhang of EU powder stocks in intervention. Cheese returns improved due to increased demand.

Market prices became increasingly volatile from Quarter 4 2017, when the butter bubble deflated rapidly to see the butter price drop to less than €4,000 per tonne by year end.

While butter continues to trade at relatively strong prices, 2017 highlighted the extent of volatility in dairy markets which has become more frequent. From Quarter 4 2017, the global market is returning significantly less than the milk price paid to producers, a situation that has continued in Quarter 1 2018.

The volatility in 2017 has highlighted the importance of pursuing our value-added strategy, which is aligned to the long-term opportunities in global dairy demand. Best estimates indicate that the demand continues to grow at circa 1.8% per annum with the predominant opportunities being in dairy deficit regions such as Asia, the Middle East and North Africa.

Irish Operations

2017 was a very good year for Dairygold's Milk Suppliers with increased milk prices and milk production volumes at 1.3 billion litres, an increase of 8.3% on the previous year. This represents a cumulative volume increase of 55% since 2009 and an increase of 64% in actual milk solids supplied, both well ahead of the ambitious National Strategic Plan (Harvest 2020) target.

In 2017, Dairygold with its increased capacity following significant investment, processed 41.6 million litres during peak week, an increase of 11.6 million litres on 2011.

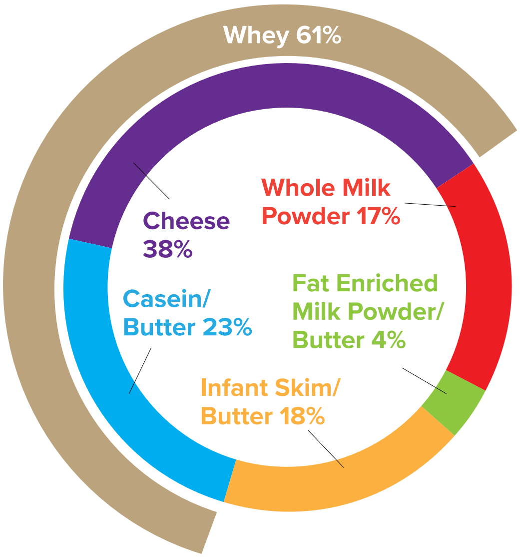
The Dairygold stand at Food Ingredients Europe (FIE) exhibition which took place in Germany in November 2017.

Commercial and Innovation

With dairy expansion continuing apace, our 2017 ingredient sales volumes were up 10% on 2016.

Throughout the year, Dairygold maximised the commercial return from its flexible product mix with the milk utilisation shown in the following chart:

2017 Product Portfolio (milk utilisation)



In 2017, Dairygold continued to build its presence in the global market with the opening of an office in China to service its Chinese Customers and the broader Asian markets.

In 2017, Dairygold exhibited at a number of strategic global food industry exhibitions including Gulfood in Dubai, Food Ingredients China (FIC) and Food Ingredients Europe (FIE) in Germany. This provided a global platform to showcase our ambitious and innovative work in the food ingredients and nutritional sectors.

Dairygold's focus on innovation and product development was rewarded in winning top prizes at the Global Cheese Awards in recognition of the exceptional flavour and taste of the cheese made from the high-quality milk of its Members.

Strategic Investments

In 2017, the Society celebrated a proud and important milestone with the official opening of the Nutritionals Campus in Mallow following an €86 million investment. I am confident that with this state of the art processing facility we can optimise the investment by further increasing our presence in international markets with a diverse value-added product portfolio that delivers the best return for Members. Continuing this strategy, the Society will make further significant investments in the Nutritionals Campus to enable more advanced processing capabilities to produce higher value-added products.

Dairygold welcomed Cork County Council's decision to grant planning permission for the proposal to build a multi-million-euro cheese development facility in Mogeely with TINE SA, one of its commercial partners.

This is very important for the Society as TINE SA signalled their commitment, by ratifying €77 million in funding for the project in November 2017. The production facility will have the capacity to produce up to 20,000 tonnes annually of the popular Norwegian cheese brand Jarlsberg®. Unfortunately, the project has not yet progressed as we await a decision which is imminent from An Bord Pleanála.

Overseas Operations

Dairygold's cheese ingredients businesses in the UK and Germany had another successful year, delivering increased sales with strong operational and financial performances. The businesses provide a key route to market for cheese manufactured at Dairygold's Mitchelstown and Mogeely facilities. The businesses continue to enhance the strong relationships they have developed with the key players in the industrial and food service sectors, by providing innovative cheese ingredient solutions combined with excellent service.

Agri Business

The strong milk price in 2017 and strong product offering drove the demand for ruminant feed and fertiliser leading to significant increases in sales volumes.

Regrettably, for cereal and grain growers, it was another very challenging year. However, in line with its ethos, the Society demonstrated its support for and commitment to its cereal growers by paying leading prices for their grain during the 2017 harvest.

Dairygold's Agri Strategy remains focused on increasing returns to Members through education and training in best practice to deliver sustainable, profitable farming and the provision of appropriately priced and best value quality inputs.

The Retail business achieved another solid performance with increased turnover driven by product categories such as builders' and farm hardware.

Dairygold launched a major Store Investment Plan in 2017, which will see an investment of €11.5 million to enhance the retail store network from 2018 to 2020. The investment represents a major commitment by Dairygold to provide a modern retail offering that is fit for purpose to serve its farming Members' and Customers' needs in the ever changing and challenging retail landscape.

Pictured left to right with their 2017 Retail Excellence Award for 'Website of the Year' are Gillian Foley, John O'Carroll, Denise Jones, Derek Burke and Elaine Hayes from Dairygold Co-Op Superstores.

The plan includes three major store enhancements, five new Agri store builds, the refurbishment of 18 stores and the integration of 13 stores. I'm confident that the plan provides for a re-vitalised and future-focused store network model that prioritises both Shareholder requirements and Customer service as well as the long-term profitability and commercial viability of the business.

In 2017, the Society was honoured to win the prestigious Retail Excellence award of 'Website of the Year' for its online store www.coopsuperstores.ie the first site in the Agri sector to do so. The award reflects the vision and commitment to providing a first-class customer experience that is in line with consumer demand and trends of today. The online store will now represent Ireland at the Global E-Commerce Summit which will be held in Barcelona in June 2018.

Non-Core Assets

Commercial Property Portfolio

The Society continues to work on the delivery of its strategy to maximise the value of its commercial property portfolio. This is being achieved by optimising zoning and planning for development opportunities, commercialising sales opportunities and increasing rental income as appropriate. In 2017, a key highlight for the Society was achieving planning permission for housing developments in Midleton and Killumney and bringing these properties to market.

Financial Assets

In line with best practice and following a tender process, the Society appointed financial investment managers, the Davy Group, to pursue an agreed de-risking strategy of its financial asset portfolio. The performance for 2017 was satisfactory however there were significant swings in the valuation of the individual stocks.

Pensions

In 2017, the Board and Management conducted a review of the Society's Defined Benefit Pension Plan which determined that while the Plan was fully funded, it was no longer appropriate to provide a sustainable pension for Employees and that both the Society and its Employees would be better served by moving to a new Defined Contribution Pension Plan. Following a comprehensive consultation with all key stakeholders, agreement was reached and the changes are being implemented. The closure of the Defined Benefit Pension Plan to future accrual from 31 March 2018 represents a significant de-risking measure for the Society's Balance Sheet.

Subsidiaries, Joint Ventures and Associates

Munster Cattle Breeding Group Limited (MCBG) is the leading Irish Cattle Breeding Services provider committed to providing innovative and effective programmes for customers, thereby improving herd productivity and profitability. MCBG is 66% owned by Dairygold with the balance of the shareholding owned by Kerry Agribusiness and Shinagh Estates. MCBG had a very successful year in 2017 with increased insemination and semen straw sales volumes and an increase in the number of cow's milk recorded.

Malting Company of Ireland Limited (MCI), which is jointly owned by Dairygold and Glanbia, focuses on being a significant player in the Irish malt industry through the supply of premium quality malt at competitive prices. MCI had a very successful year in 2017 operating at near capacity and providing a satisfactory return to shareholders.

Co-Operative Animal Health Limited (CAHL) is also jointly owned by Dairygold and Glanbia and focuses on providing competitive veterinary and nutritional products. It had a successful year in delivering value to Dairygold's farmer Members.

Nutritionals Campus, Mallow.

Brexit

The outcome of the Brexit Referendum in 2016 has left the Irish economy and the dairy industry in a period of uncertainty and turmoil. Ireland will potentially be one of the biggest economic losers across all sectors given our high dependency on the UK, with 35% of Irish food and drink exports going to the UK, including nearly 60% of cheese and 30% of butter exports. The UK currently imports circa 85,000 tonnes of its cheddar requirements from Ireland. For Dairygold, circa 30,000 tonnes of cheddar, equivalent to circa 300 million litres of its milk pool is utilised in the production of cheese for the UK market.

Dairygold is planning for a 'Hard Brexit' and while we hope for a better outcome, we can't take anything for granted given the political volatility and uncertainty. A 'Hard Brexit' could result in a significant import tariff on Irish cheese. There is also the additional concern around the UK becoming more self-sufficient with additional UK cheddar manufacturing capacity being put in place.

The difference between Brexit and many other business challenges is that the outcome of Brexit is outside of Dairygold's control. Dairygold is working with all industry stakeholders and Government at the highest level to ensure the challenges for the Irish dairy industry are understood and addressed as part of the negotiations. A long transition period is an absolute necessity for Dairygold and the Irish dairy industry as a whole.

Dairygold is focused on developing alternative routes to market and on product diversification to reduce its exposure to the UK market.

Brexit may offer opportunities for Dairygold's UK business but there are key concerns regarding the security of raw material supply and the recovery of any potential cost increases.

Dairygold is committed to its UK business and is working as part of its overall Brexit planning to address these concerns.

Brexit is an on-going challenge which is at the forefront of our agenda and it will be for the foreseeable future.

Sustainability

Sustainability and taking a proactive approach to the environmental impacts of expansion is a key priority for Dairygold. More than ever before, at a national and international level, the challenges of reducing greenhouse gas and air emissions while protecting water quality are critical. Following on from a Sustainability Policy agreed in 2016, the Society has agreed a Sustainability Strategy to guide us on the next stage of our sustainability journey.

I commend the Society's Milk Suppliers for their efforts in the Sustainable Dairy Assurance Scheme (SDAS) which forms a pivotal part of the Society's on-farm sustainability programme and provides tangible evidence to support the Society's dedication to sustainability. Following consultation with Milk Suppliers throughout 2017, 100% participation in SDAS was achieved and ensures that all milk collected in 2018 will come from SDAS certified farms. The importance of the Scheme cannot be underestimated, particularly as global buyers demand demonstration of sustainability right through the supply chain - from farm to fork.

Nationally, Dairygold is a leading member of Dairy Sustainability Ireland (DSI), a cross-industry initiative which aims to provide a proactive industry led approach to delivering sustainable practices at farm level. The initiative is designed to meet the sustainability expectations of customers, improve on-farm productivity and mitigate regulatory risks.

The Dairygold Board and Management welcomed Minister for Agriculture, Food and the Marine, Michael Creed TD to its Nutritionals Campus in Mallow for a briefing on Brexit.

In 2017, Dairygold pioneered and piloted a 'Leanfarm' programme among 15 of its Milk Suppliers of various farm size, scale and location to examine if the same rewards as experienced from applying 'lean' principles at manufacturing and processing level, could be replicated at farm level. The results from the six-month pilot programme, coordinated by the Society's Continuous Improvement team and milk advisors, proved very successful and the programme is being rolled out to all Milk Suppliers.

In 2017, Dairygold renewed its Origin Green certification for its processing sites with a new three-year plan which runs until 2019. Reaffirming the Society's commitment to improving sustainability across the business, the Carbon Trust was engaged in 2017 to assist in developing a business footprint and key metrics for monitoring water, carbon and waste.

The Society was proud to receive the prestigious Best Large Business Energy Management Award from the Sustainable Energy Authority of Ireland (SEAI). It was presented to Dairygold in recognition of significant energy savings which were delivered across our Irish processing business using the ISO 50001 Energy Management standard.

Through a structured and strategic approach to sustainability, Dairygold is demonstrating year on year, improved practices in its business operations to meet the sustainability challenges into the future.

People

Dairygold is an organisation focused on growth through strategic investment including developing its people capability. 2017 saw continued investment in its people, who are pivotal to the success and ongoing development of the business.

In 2017, the business introduced an Advanced Leadership Development Programme in conjunction with the UCD Michael Smurfit Graduate Business School, in which a number of key managers participated. The programme consisted of specialised leadership training and coaching over a 12-month period which involved a significant level of commitment from participants and the Senior Leadership Team.

A number of significant education and development programmes are taking place across the organisation including; a Diploma in High Performance Leadership from UCC/IMI, the Dairygold Graduate Programme resulting in a Diploma in Management, ICOS Skillnet Management Development Programme and a Retail Development Programme.

The Society promotes people development through personal development plans. The organisation continues to build capability to ensure that it has the appropriate skills and talent to enable it to deliver on its growth objectives through the value-added strategy.

Future Strategy

As an ambitious, dynamic and progressive organisation, Dairygold is working to a clearly defined strategic plan. Dairygold's strategy is to continue to add value to its Members' milk by investing in value-added capability and infrastructure to expand from core milk processing activities. A number of internal and external investment opportunities are currently under consideration which would leverage the organisation's operational and commercial strengths, particularly in cheese, protein and nutritional milk powders, together with the Society's financial capability.

Dairygold's **Cheese Strategy** is focussed on increasing and broadening its capability, to take advantage of the growing global demand for cheese, while recognising the potential future route to market challenges in the UK, as a result of Brexit. This will require increased investment and with Dairygold's strong heritage in cheese, it is well positioned to grow its cheese volumes over the coming years. We are actively developing our access to existing markets and pursuing new routes to market for our broad cheese portfolio by investing resources to realise these opportunities.

Dairygold recognises the growing market need for advanced dairy proteins, with their wide range of applications. We continue to invest in our operational and commercial capability and infrastructure to meet the growing market need, particularly in the developing world.

Pictured at the official opening of the Nutritionals Campus in Mallow in September 2017 are; Minister for Agriculture, Food and the Marine, Michael Creed TD, European Commissioner for Agriculture and Rural Development, Phil Hogan, Dairygold CEO Jim Woulfe, Dairygold Chairman, James Lynch and the Tánaiste and Minister for Business, Enterprise and Innovation, Frances Fitzgerald TD.

Dairygold's **Nutritional Powder Strategy** continues the journey which began with the regeneration of the Mallow Nutritionals Campus. Over the last seven years, we have invested in facilities that serve as a strong foundation to realise our Nutritional Powder strategy and this will continue. The strategy in this area recognises the significant global trend in the consumption of dairy protein as a key ingredient to support a healthy and active lifestyle at all life stages. We continue to invest to accelerate our journey and create more functional and complex products to meet the growing market need.

Dairygold's strategy is ambitious and recognises both the strengths of the organisation and its potential for the future. Dairygold's presence in key markets is critical to the success of the strategy and this will be achieved by a combination of Dairygold resources and strong in-market partnerships. While we need to be flexible with our plans as external factors change, the combination of high quality raw materials and the continued investment in operational and commercial capability leaves Dairygold well positioned for the future.

Thank You

On a personal level, I wish to thank the Members of the Board, General and Regional Committees for their significant contribution and support over the year. I would like to particularly thank former Chairman, James Lynch and our current Chairman, John O'Gorman for their counsel and support throughout 2017.

I would also like to thank our Customers, Shareholders and Suppliers for their ongoing loyalty and contribution to the success of the Society.

Finally, I wish to thank my Management colleagues and Staff across the business for their commitment, dedication and enthusiasm which was pivotal to the Society's success in 2017.

Conclusion

2017 was a positive year for the organisation which saw it maximise returns to Members through milk and grain prices, as well as strengthening its balance sheet further with a robust financial performance. Business agility and strategies focused for long-term opportunities will be key drivers for continued growth and success for our organisation. As such the Society continues to focus on its ambitious value-added and growth agenda, maximising returns for Members. I am confident that the Society has put in place a solid foundation, not only in its infrastructure but the team which will enable the organisation to fulfil its strategic objectives.

Jim Woulfe
CEO Dairygold

SUSTAINABILITY

SDAS – **100% of milk** collected in 2018 will be from **SDAS certified farms**

Carbon Intensity from Dairygold farms has improved by **7%**

Energy efficiency in Powder Processing improved by **3.4%**

Waste to landfill from cheddar production reduced by **2.4%**

Wrap it Pink has raised **€50,000** for the Irish Cancer Society since 2015

98 people received **Leadership and Management Development Training** in 2017

Leanfarm

Dairygold is Ireland's first dairy processor to successfully pioneer the widespread application of lean techniques at farm level. Leanfarm is a knowledge-sharing programme available to all Dairygold Members which can help them to improve on-farm safety, quality and resource efficiency, as well as an enhanced quality of life through time-saving, reduced stress and less physical labour.

SEAI Award

Dairygold won the prestigious 2017 Large Business Energy Management Award from the Sustainable Energy Authority of Ireland (SEAI) for the energy savings achieved in its processing activities by using the ISO 50001 Energy Management Standard. Reducing energy usage has also reduced Dairygold's costs and carbon emissions.

Carbon Trust Project

Dairygold is working with the Carbon Trust, an independent, expert organisation which assists businesses in measuring and managing their environmental impact. Dairygold is developing metrics for carbon emissions, energy, water and waste across the business, a project which will be completed in 2018.

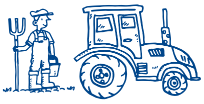
Origin Green

Dairygold is a certified Origin Green member and successfully completed its 2014-2016 Plan. The current Origin Green Plan (2017-2019) contains targets including carbon, energy, water, waste, biodiversity, raw material sustainability, staff development, health and nutrition. In 2017, progress was made on all target areas and the business is on track to deliver on its commitments by 2019.

Dairy Sustainability Framework

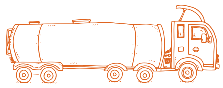
The Dairy Sustainability Framework (DSF) is an internationally recognised global framework for improving sustainability in the dairy industry. Dairygold joined the DSF in 2017 and has aligned its sustainability objectives to the 11 sustainability criteria identified by the Framework.

OUR **2017** PERFORMANCE



FARM

- Farm carbon has improved by 7% since 2014 (*based on most recent Bord Bia data*)
- Dairygold joined the internationally recognised Dairy Sustainability Framework
- Dairygold is a lead member of the national Dairy Sustainability Ireland initiative
- Targets developed in the areas of carbon, water, soil and biodiversity
- Soil fertility and nutrient management programme commenced on 32 Member farms
- Successful Leanfarm pilot on 15 farms



SUPPLY CHAIN

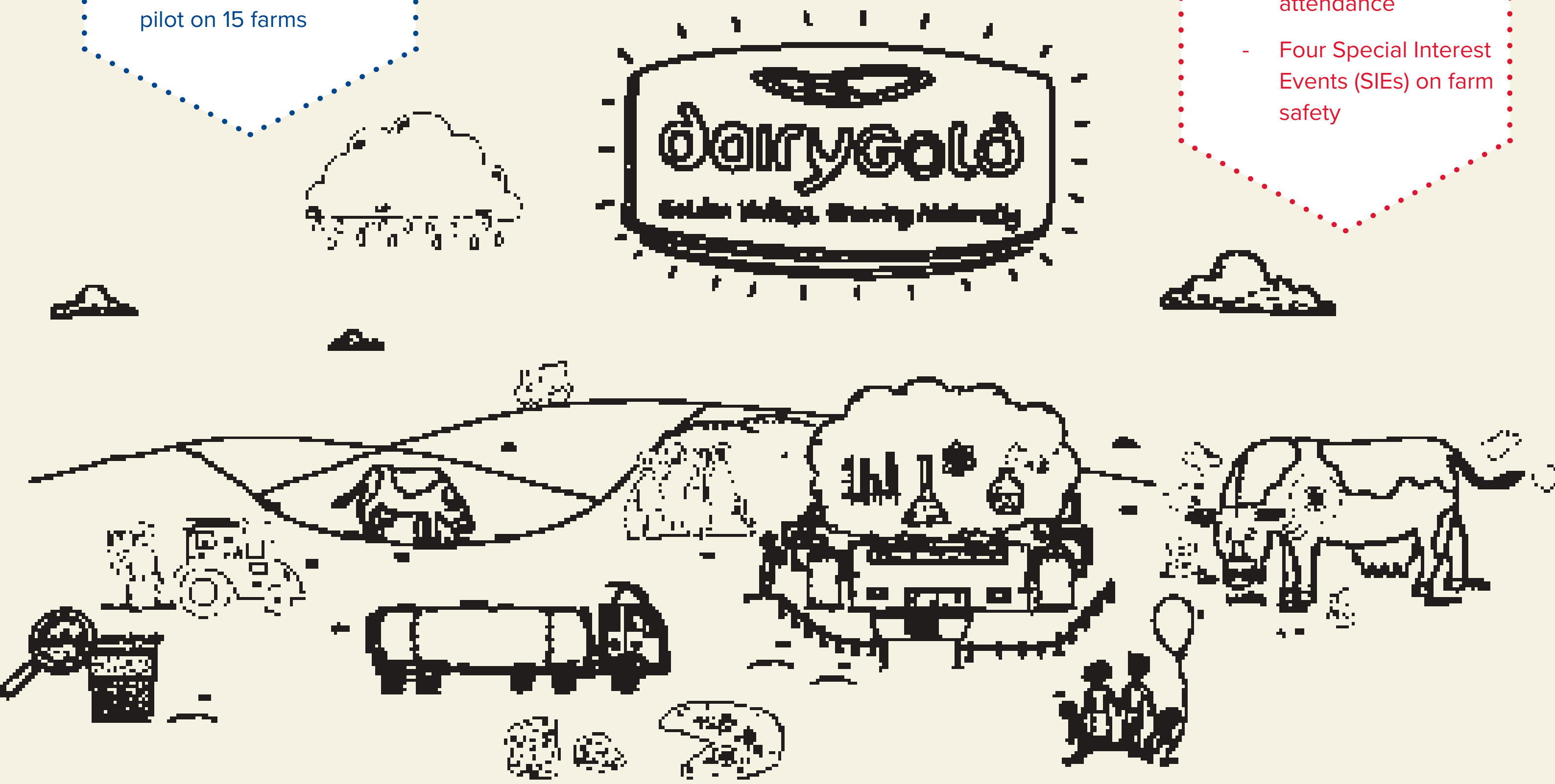
- 2017 Green Supply Chain Achievement Award and SEAI Energy Management Award
- Over 3,100 tonnes of carbon savings from biogas generated by the anaerobic digester
- Waste to landfill from the Clonmel Road cheese site reduced by 2.4%
- Energy efficiency in powder processing improved by 3.4%
- Water efficiency in powder processing improved by 12.9%

PEOPLE

- 98 staff completed Leadership and Management Development training
- 817 Health and Safety training places delivered
- 245 staff participated in four health promotion initiatives
- 135 staff received Lean/Continuous Improvement training
- Wellbeing services provided to staff including diabetes tests, eye tests and flu vaccines

COMMUNITY

- Wrap it Pink - €17,500 contributed to the Irish Cancer Society in 2017 (*€50,000 since 2015*)
- Sponsorship of Munster Hurling League, national charities and local community group initiatives
- School Business Partnership with schools in Mallow and Mitchelstown
- Focus on Safety:
  - Farm safety day in Mallow Racecourse with 400 people in attendance
  - Four Special Interest Events (SIEs) on farm safety



FINANCIAL OVERVIEW

2017 has been a successful year for Dairygold, delivering a robust financial performance, with an operating profit before restructuring costs of €32.4 million.

Consolidated Income Statement

Turnover in 2017 was €965.5 million (2016: €756.1 million), an increase of €209.4 million. The Dairy business turnover was positively impacted by a rise in Dairy Markets during the year, with a slowdown in the last quarter. There was an increase in sales volumes, driven by an increase in milk volumes of 8.3%. The Agri business turnover was up year-on-year, driven by increased feed and fertiliser volumes due to increased demand while retail sales increased year on year.

The overall operating profit before restructuring costs, was €32.4 million (2016: €17.5 million), an increase of €14.9 million. While the business benefited from the increased milk volumes, the Society supported its Milk Suppliers in the latter months of the year by paying a milk price in excess of market returns.

The operating profit, was driven by:

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

The share of joint ventures' and associates' performance delivered an operating profit of €0.4 million in 2017 (2016: €0.3 million).

The net interest charge was €5.9 million (2016: €6.1 million), with the decrease primarily driven by a decrease in margin and refinancing costs.

The profit after tax for the financial year of €21.5 million (2016: €5.9 million), an increase of €15.6 million, reflected an increased operating profit of €14.9 million, a decrease in restructuring costs of €0.3 million, an increase in the share of joint ventures and associates of €0.1 million, positive movement in the value of financial assets year-on-year of €4.1 million, a decrease in net interest payable of €0.2 million, offset by an increase in the taxation charge of €4.0 million.

2017

FINANCIAL HIGHLIGHTS

→ Delivered an operating profit before restructuring costs of **€32.4 million**, after paying a leading milk price throughout the year.

→ Turnover increased by **€209.4 million** to **€965.5 million**.

→ The net bank debt of **€79.6 million**, a reduction of **€9.1 million** from 2016, gave a net bank debt to adjusted EBITDA ratio of **1.5:1**.

→ The Society's net asset value increased by **€27.9 million** to **€335.5 million**.

Consolidated Statement of Financial Position

In 2017, the net asset value of the Society increased by €27.9 million to €335.5 million (2016: €307.6 million). The increase primarily reflected the profit for the financial year of €21.5 million, positive non-cash movements related to the pension scheme of €5.8 million, net shares issued of €1.7 million and shares cancelled of €0.4 million, offset by negative exchange differences on translation of subsidiary undertakings of €1.0 million, share interest and dividends of €0.5 million.

Fixed assets of €312.9 million (2016: €317.7 million) comprising of intangible assets, tangible assets, investment properties and financial assets decreased by €4.8 million, as a result of:

- depreciation, amortisation and impairment charges of €22.1 million;
- disposals of tangible assets of €0.1 million; and
- the impact of negative currency movements of €0.2 million.

These reductions were partially offset by:

- capital expenditure investment of €13.6 million;
- an increase in financial assets of €0.4 million; and
- an increase in investment property assets valuation of €3.6 million.

Net current assets less creditors falling due after more than one year of €36.0 million (2016: €9.4 million) increased by €26.6 million primarily as a result of:

- an increase in stocks of €11.9 million to €144.3 million (2016: €132.4 million);
- a decrease in bank debt of €9.1 million to €79.6 million (2016: €88.7 million);
- an increase in debtors of €16.1 million to €110.3 million (2016: €94.2 million);
- offset by an increase in creditors (excluding bank debt) of €10.5 million to €139.0 million (2016: €128.5 million).

The capital grants' liability of €7.9 million (2016: €9.7 million) decreased by €1.8 million as result of the amortisation credit for the year.

The deferred tax liability of €5.9 million (2016: €3.4 million) increased by €2.5 million year on year.

The consolidated statement of financial position at 31 December 2017 reflected a pension asset of €0.5 million (2016: pension liability of €6.3 million). The positive movement was driven by an increase in the assets of €13.5 million offset by an increase in liabilities of €6.7 million.

The share capital increased by €1.7 million to €90.7 million (2016: €89.0 million), reflecting shares issued of €3.5 million, partially offset by shares redeemed of €1.4 million and by shares cancelled of €0.4 million. Minimum shareholding contributions recommenced in 2017 based on milk price.

The profit and loss account reserve increased by €24.8 million to €238.9 million (2016: €214.1 million) reflecting the profit for the financial year (excluding non-controlling interests) of €21.0 million, a benefit of €0.4 million on shares cancelled, the positive non-cash movements related to the pension scheme of €5.8 million offset by negative exchange differences on translation of subsidiary undertakings of €1.0 million, share interest of €0.4 million and a transfer to the bonus reserve of €1.0 million.

Consolidated Statement of Cash Flows

The increase of €1.1 million in cash and cash equivalents from €1.3 million to €2.4 million, together with the decrease in bank loans of €8.0 million, reflects the overall decrease in net bank debt of €9.1 million in 2017.

The net bank debt of €79.6 million (2016: €88.7 million) reduced by €9.1 million, resulting from:

- EBITDA of €52.8 million (2016: €39.0 million); and
- Member funding receipts of €5.3 million (2016: €nil) in relation to revolving fund.

These were partially offset by:

- Non-cash movements of €4.4 million (2016: €7.0 million) included in EBITDA in relation to revaluation of investment properties and foreign exchange differences;
- Increase in working capital requirement of €26.1 million (2016: decrease of €1.6 million), resulting primarily from higher working capital requirements in stock and debtors, offset by an increase in creditors;
- The investment in the business of €13.4 million (2016: €15.0 million) decreased by €1.6 million from the prior year as a result of a fall in capital expenditure (net of grants and disposals) of €2.5 million offset by a decrease in net receipts of financial assets of €0.9 million; and
- Payments of €5.1 million (2016: €11.1 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 bank debt to adjusted EBITDA ratio of 1.5:1.

Pension

The consolidated statement of financial position at 31 December 2017 reflected a pension asset of €0.5 million (2016: pension liability of €6.3 million). The positive movement was driven by an increase in the assets of €13.5 million offset by an increase in liabilities of €6.7 million. The increase in liabilities was primarily driven by providing for discretionary increases of 1.54%, resulting in an increase in liabilities of circa €22 million offset by an increase of 30 basis points in the discount rate to 2.20%, resulting in the reduction in liabilities of circa €16 million. The Society benefitted €0.6 million from settling pension liabilities as part of a trivial pension exercise and €1.2 million from the decision to close the defined benefit scheme to future accrual from 31 March 2018.

This decision followed a strategic review which was initiated by the Board and Management. This is a positive step in de-risking the Society's statement of financial position.

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 2017 was €16.9 million (2016: €11.2 million). This is made up of €2.8 million (2016: €2.7 million) in loan notes and €14.1 million (2016: €8.5 million) in the revolving fund. Revolving fund contributions recommenced in 2017 based on milk price. In 2018 the Society will repay €1.7 million of loan notes to Members including interest of €0.3 million.

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 €35.4 million (2016: €34.5 million) including Aryzta AG at €12.2 million (€33.10 per share), FBD plc at €0.5 million (€10.11 per share), IPL Plastics plc (formally One51 plc) at €9.9 million (€2.00 per share) as at 31 December 2017 and an investment portfolio of €12.8 million.

Property

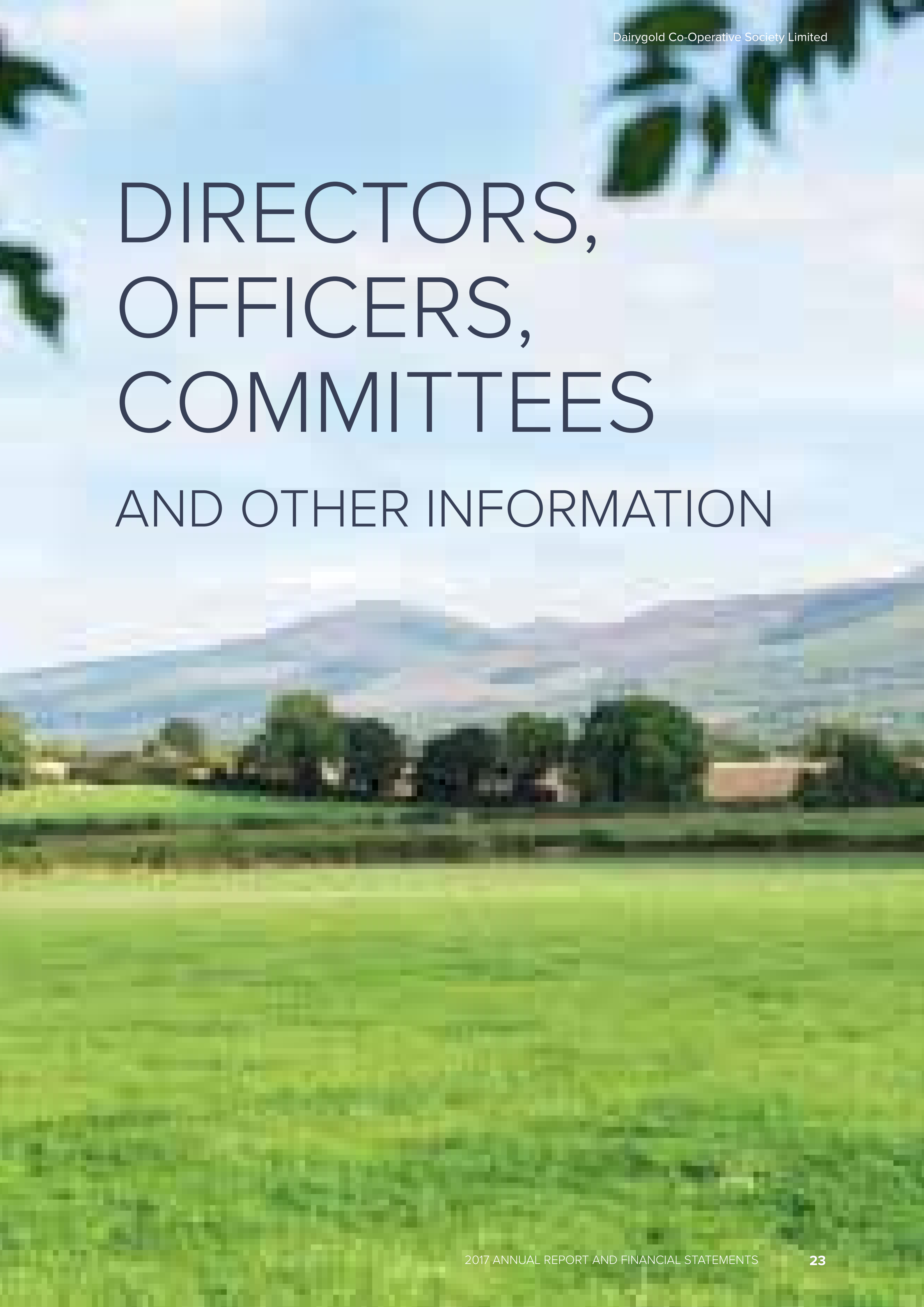
The Society, as at 31 December 2017, holds circa €45 million of non-core property assets. The primary focus is to maximise the value from these properties for the Society, through a combination of developmental, rental and commercialisation opportunities, which the Society is actively pursuing and delivering on.

CONCLUSION AND OUTLOOK

The Society has produced a strong financial performance against a backdrop of improved and uncertain markets. The Society continues to invest in its future by developing existing and new products, improving processing capacity and efficiency, identifying new customers and routes to market, developing and working with its people on its future strategy to sustainably maximise returns to its Members.

The Society's net debt position is robust and financially prudent. Dairy markets in 2018 look uncertain and are a concern.

Dairygold Milk Supplier, Seán Moher, Croughmore, Mitchelstown.



DIRECTORS, OFFICERS, COMMITTEES

AND OTHER INFORMATION

BOARD OF DIRECTORS

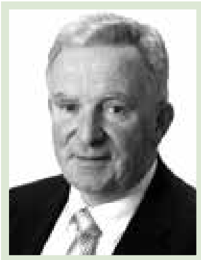

John O'Gorman
CHAIRMAN

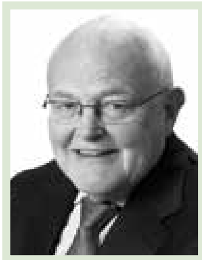

Edmund C. Lynch
VICE CHAIRMAN


Donal Buckley


Patrick Clancy

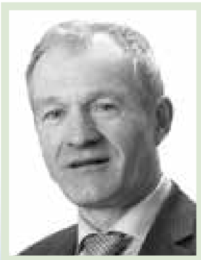

Maurice Curtin


Thomas Feeney

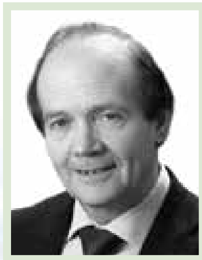

Dan Flinter

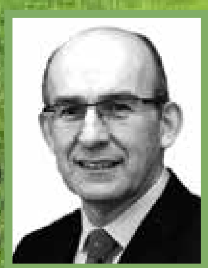

Annette Flynn

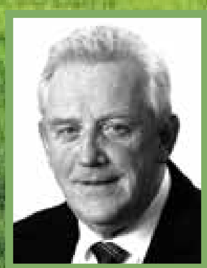

Richard Hinchion


Sean MacSweeney


Gerard O'Dwyer


John O'Sullivan


Jim Woulfe
CHIEF EXECUTIVE


Eamonn Looney
SECRETARY

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 regularly, 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), Messrs. Patrick Clancy, Richard Hinchion and John O'Sullivan. The Chief Executive, Chief Financial Officer, Head of Internal Audit, other Directors, Senior Management and representatives of the external auditor 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;
- assessing annually the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and the relationship with the auditor 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 2017 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 Board have overall responsibility for ensuring the Society's risk management framework is appropriate. The Audit Committee reviewed the risk registers and risk management systems of the Society on a rolling basis during 2017. The Committee recommended that the Society's principal risks be presented to the Board for review. The Board reviewed the principal risks facing the Society and provided feedback which was incorporated into the register. The Committee also 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

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. 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 completed a review of its effectiveness through a series of questionnaires and interviews. For 2017, an in-depth effectiveness review was commissioned from an external advisory firm. The review focused on such areas as the Committee's composition, quality, content of meetings, role and remit. The Committee received very positive feedback overall and are satisfied that it is functioning effectively and that it has met its terms of reference.

The Committee is dedicated to the ongoing education of its members including regulatory updates and induction training for all new members of the Committee during the year.

Acquisition and Investments Committee

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

The Chairman of the Board acts 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 investments 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 and/or 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 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), John O'Gorman (Society Chairman), Edmund C. Lynch (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. John O'Gorman (Society Chairman), Edmund C. Lynch (Society Vice Chairman), Sean MacSweeney and Maurice Curtin (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.

Independent Auditor

PricewaterhouseCoopers,
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 Dairy Operations
Tim Healy

Head of Dairy Commercial and Business Development
Conor Galvin

General Manager Agri Operations
Sean O'Sullivan

General Manager Agri Retail
John O'Carroll

Head of Human Resources
Adrian Beatty

Head of Quality and Regulatory Compliance
Paddy Hannan

GENERAL COMMITTEE

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

East Cork

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
Mr. Maurice Smiddy

Mallow

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

Limerick

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

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

REGIONAL COMMITTEES

AGHABULLOGUE/ RYLANE
Mr. Patrick Ahern
Mr. Edward Twomey

AHADILLANE
Mr. Donal Barrett
Mr. Patrick Sexton

ALLENSBRIDGE/ DROMTARIFFE
Mr. Peter Duggan
Mr. Cornelius Murphy
Mr. Eamonn Tarrant

ANGLESBORO
Mr. William Bourke

ANNACOTTY/ BIRDHILL/KILLALOE
Mr. Michael Caplis
Mr. Sean Hynes
Mr. Laurence McNamara

ARAGLEN
Mr. Thomas Feeney
Mr. Patrick O'Donoghue

ARDAGH/OLDMILL
Mr. Denis Hayes
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 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. Daniel Broe
Mr. Donal Shinnick
Mr. Ian Wharton

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

DONERAILE
Mr. Michael Duane
Ms. Elizabeth Sheehan

DONOUGHMORE
Mr. Liam Buckley
Mr. Fintan McSweeney

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

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. Mark 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. Arthur Barlow
Mr. Daniel Hogan

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. Robin Buckley
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
Vacancy

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:

John O'Gorman
Chairman

15 March 2018

Edmund C. Lynch
Vice Chairman

15 March 2018

Independent Auditor's Report

to the Members of Dairygold Co-Operative Society Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the group's assets, liabilities and financial position as at 31 December 2017 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

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

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the statement of accounting policies; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Independent Auditor’s Report

to the Members of Dairygold Co-Operative Society Limited

If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Board of Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

This description forms part of our auditor’s report.

Use of this report

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

Other required reporting

Industrial and Provident Societies Act, 1893 reporting

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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Limerick

20 March 2018

Consolidated Income Statement

for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
TURNOVER	2	**965,525**	756,065
Cost of sales		**(762,753)**	(580,405)
Gross Profit		**202,772**	175,660
Operating costs		**(153,725)**	(139,653)
Grant amortisation		**1,796**	1,614
Intangible asset amortisation		**(2,104)**	(3,085)
Depreciation		**(19,920)**	(20,082)
Change in fair value of investment properties		**3,583**	3,002
Operating Profit before Restructuring Costs	3	**32,402**	17,456
Restructuring costs	4	**(957)**	(1,213)
Operating Profit after Restructuring Costs		**31,445**	16,243
Share of gains of joint ventures		**341**	293
Share of gains of associates		**25**	11
PROFIT on ordinary activities before investment income, interest and taxation		**31,811**	16,547
Net profit/(loss) in financial assets at fair value through profit and loss	5	**492**	(3,642)
Interest payable and similar charges	6	**(6,096)**	(6,337)
Interest receivable and similar income	6	**220**	286
PROFIT on ordinary activities before taxation		**26,427**	6,854
Taxation charge on profit on ordinary activities	8	**(4,933)**	(921)
PROFIT after taxation		**21,494**	5,933
Attributable to:			
Non-controlling interests	27	**490**	311
Owners of the parent entity		**21,004**	5,622
PROFIT for the financial year		**21,494**	5,933

The above results are derived from continuing operations.

On behalf of the Board:

John O'Gorman

Edmund C Lynch

John O'Gorman
Chairman

15 March 2018

Edmund C. Lynch
Vice Chairman

15 March 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
PROFIT for the financial year		**21,494**	5,933
Share of joint ventures' reserves movements	*11*	**(31)**	29
Exchange differences on translation of subsidiary undertakings		**(1,011)**	(5,055)
Return on plan assets (excluding amounts included in net interest cost)	*23*	**13,523**	14,883
Experience (losses)/gains arising on the pension scheme liabilities	*23*	**(1,097)**	6,995
Changes in assumptions underlying the present value of pension scheme liabilities	*23*	**(5,809)**	(27,515)
Deferred tax associated with movement on defined benefit pension scheme	*22*	**(852)**	801
Total other comprehensive income/(expense)		**4,723**	(9,862)
Total comprehensive income/(expense) for the year		**26,217**	(3,929)
Total comprehensive income/(expense) for the year attributable to:			
Non-controlling interests	*27*	**490**	311
Owners of the parent entity		**25,727**	(4,240)
		26,217	(3,929)

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 €'000	2016 €'000
FIXED ASSETS			
Intangible assets	9	**4,254**	5,990
Tangible assets	10	**223,799**	233,300
Investment properties	10	**38,577**	32,628
Financial assets:			
Investments in joint ventures	11	**6,035**	5,848
Investments in associates	12	**411**	390
Other investments	13	**39,833**	39,554
		312,909	317,710
CURRENT ASSETS			
Stocks	14	**144,317**	132,389
Debtors	15	**110,304**	94,187
Cash at bank and in hand	29	**2,352**	1,269
		256,973	227,845
CREDITORS falling due within one year	16	**(131,161)**	(124,528)
NET CURRENT ASSETS		**125,812**	103,317
TOTAL ASSETS LESS CURRENT LIABILITIES		**438,721**	421,027
CREDITORS falling due after more than one year	17	**(89,839)**	(93,880)
PROVISION FOR LIABILITIES AND CHARGES			
Capital grants	21	**(7,950)**	(9,746)
Deferred taxation	22	**(5,935)**	(3,434)
NET ASSETS excluding pension asset/(liability)		**334,997**	313,967
PENSION ASSET/(LIABILITY)	23	**473**	(6,346)
NET ASSETS		**335,470**	307,621
CAPITAL AND RESERVES			
Share capital	24	**90,663**	88,980
Bonus reserve	26	**2,000**	1,000
Profit and loss account	26	**238,848**	214,087
EQUITY attributable to the owners of the parent entity		**331,511**	304,067
Non-controlling interests	27	**3,959**	3,554
TOTAL CAPITAL EMPLOYED		**335,470**	307,621

On behalf of the Board:

John O'Gorman
Chairman

15 March 2018

Edmund C. Lynch
Vice Chairman

15 March 2018

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	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 2016		**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	25			(1,164)	(1,164)		(1,164)
Dividends paid	27					(68)	(68)
Issue of ordinary shares including conversions	24	20			20		20
Shares redeemed	24	(2,189)			(2,189)		(2,189)
Shares cancelled	24	(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**
Profit for the year				21,004	21,004	490	21,494
Other comprehensive income				4,723	4,723		4,723
Total comprehensive income for the year		-	-	25,727	25,727	490	26,217
Share interest	25			(403)	(403)		(403)
Dividends paid	27					(85)	(85)
Issue of ordinary shares including conversions	24	3,492			3,492		3,492
Shares redeemed	24	(1,357)			(1,357)		(1,357)
Shares cancelled	24	(452)		437	(15)		(15)
Transfer from profit and loss account to bonus reserve			1,000	(1,000)	-		-
At 31 December 2017		**90,663**	**2,000**	**238,848**	**331,511**	**3,959**	**335,470**

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Net cash inflow from operating activities	28	**21,577**	32,066
Investing activities			
Payments to acquire intangible fixed assets		**(363)**	(1,479)
Payments to acquire tangible fixed assets		**(13,452)**	(16,525)
Payments to acquire financial fixed assets		**(11,819)**	(3,524)
Receipts on disposals of tangible fixed assets		**88**	305
Receipts on disposals of financial fixed assets		**12,191**	4,742
Capital grants received	21	**-**	1,466
Net cash flow from investing activities		**(13,355)**	(15,015)
Financing activities			
Decrease in long term loans		**(8,000)**	(10,000)
Repayments of capital element of finance leases		**-**	(554)
Movement in bank debt		**(8,000)**	(10,554)
Equity share interest paid		**(1,182)**	(1,386)
Dividends paid to non-controlling interests	27	**(85)**	(68)
Interest paid		**(5,382)**	(5,951)
Issue of share capital	24	**3,492**	20
Redemption of shares	24	**(971)**	(1,844)
Redemption of convertible stock	19	**(1)**	(3)
Revolving fund		**5,292**	-
Redemption of loan stock	20	**(302)**	(390)
Net cash flow from financing activities		**(7,139)**	(20,176)
Increase/(decrease) in cash and cash equivalents		**1,083**	(3,125)
Cash and cash equivalents at 1 January		**1,269**	4,394
Cash and cash equivalents at 31 December	29	**2,352**	1,269

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 2017;

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 2016 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 2017; 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 translation 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 extended in December 2017. 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 Sections 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 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 on-going 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.

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. 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.

Statement of Accounting Policies

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 translated at the foreign exchange rates at the consolidated statement of financial position date.

Exchange differences have been included in the consolidated income statement for the year, with the exception of exchange differences on monetary items

Statement of Accounting Policies

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.

Long Term Benefits

The Society operates an incentive plan for certain members of the Executive Management Team based upon the achievement of business performance objectives over a three year period. An expense is recognised in the consolidated income statement when the Society has a present legal or constructive obligation in place to make payments 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 asset recognised in the consolidated statement of financial position in respect of the defined benefit plan is the fair value of the plan assets less the present value of the defined benefit obligation at the end of each financial year.

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 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.

Statement of Accounting Policies

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:

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 2017. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

b) Defined Benefit Scheme

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 23.

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, excess on insurance cover 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 22.

Notes to Financial Statements

for the year ended 31 December 2017

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 35.

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 the Society's 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 2017 and 1 January 2018, 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 €1.8 million gain/loss (2016: €1.7 million gain/loss).

Notes to Financial Statements

for the year ended 31 December 2017

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 the finance requirements 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 €335.5 million (2016: €307.6 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 2017, the Society's net debt/adjusted EBITDA ratio was 1.50 times (2016: 2.28 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 2017

2. Turnover

	2017 €'000	2016 €'000
Turnover: group and share of joint ventures'	**988,276**	777,911
Less: share of joint ventures' turnover	**(22,751)**	(21,846)
Group turnover	**965,525**	756,065
Geographical analysis by destination:		
Ireland	**313,085**	276,512
United Kingdom	**256,000**	132,352
Rest of Europe	**247,078**	180,085
Rest of World	**149,362**	167,116
	965,525	756,065
Principal activities by class of business:		
Food ingredients	**733,314**	539,675
Agri business	**220,262**	211,706
Financial and property	**11,949**	4,684
	965,525	756,065
Analysis of turnover by category:		
Sale of goods	**939,532**	738,517
Rendering of services	**13,657**	12,532
Others including sale of shares and property activities	**12,336**	5,016
	965,525	756,065

3. Operating profit before restructuring costs

	2017 €'000	2016 €'000
Operating profit before restructuring costs is stated after charging/(crediting):		
Research and development expenditure	**1,513**	1,705
Foreign exchange loss	**1,814**	482
Amortisation of intangible assets - Note 9	**2,104**	3,085
Depreciation of tangible fixed assets - Note 10	**19,920**	20,082
Impairment of plant and machinery (included in operating costs) - Note 10	**150**	-
Capital grants amortisation - Note 21	**(1,796)**	(1,614)
Cost of stock recognised as an expense	**762,753**	580,405
Impairment of stock recognised as an expense - Note 14	**17,500**	3,200

Notes to Financial Statements

for the year ended 31 December 2017

4. Restructuring costs

	2017	2016
	€'000	€'000
Restructuring costs	**957**	1,213

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

5. Net profit/(loss) in financial assets at fair value through profit and loss

	2017	2016
	€'000	€'000
Profit/(loss) on shares measured at fair value - Note 13	**492**	(3,642)

6. Finance costs

	2017	2016
	€'000	€'000
Interest payable and similar charges:		
Bank interest payable and similar charges	**(5,835)**	(6,090)
Net interest payable and similar charges relating to pension - Note 23	**(93)**	-
Unwinding of the discount factor for provisions	**(106)**	(184)
Share of joint ventures' net interest payable	**(62)**	(63)
	(6,096)	(6,337)
Interest receivable and similar income:		
Net interest receivable and similar income relating to pension - Note 23	**-**	43
Unwinding of the discount factor for receivables	**220**	243
	220	286

7. Payroll costs

	2017	2016
	Number	Number
The weekly average number of employees:		
Dairygold Food Ingredients	**671**	654
Dairygold Agri Business	**532**	537
	1,203	1,191
Payroll costs comprise:	**€'000**	€'000
Wages and salaries	**59,845**	53,685
Social welfare costs	**5,727**	5,501
Other retirement benefit costs	**3,810**	4,972
	69,382	64,158

Notes to Financial Statements

for the year ended 31 December 2017

8. Taxation charge on profit on ordinary activities

	2017	2016
Tax expense included in the consolidated income statement	**€'000**	€'000
Corporation tax:		
Irish tax	**(2,307)**	(336)
Foreign tax	**(816)**	(564)
	(3,123)	(900)
Prior year provision movement:		
Irish tax	**(75)**	551
Foreign tax	**(21)**	(55)
	(96)	496
Tax charge	**(3,219)**	(404)
Share of associates' tax	**-**	-
Share of joint ventures' tax	**(65)**	(53)
Total corporation tax	**(3,284)**	(457)
Deferred tax charge - Note 22:		
Origination and reversal of timing differences	**(1,649)**	(464)
Total tax	**(4,933)**	(921)

Tax (charge)/credit relating to items recognised in the consolidated statement of comprehensive income
The tax (charge)/credit is made up as follows:

Deferred tax associated with movement on the defined benefit pension scheme - Note 22	**(852)**	801

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 2017 of 12.5% (2016: 12.5%). The differences are explained as follows:

Profit on ordinary activities before taxation	**26,427**	6,854
Tax on profit on ordinary activities at standard Irish corporation tax rate	**(3,303)**	(857)
Effects of:		
Expenses allowable/(not deductible) for tax purposes	**189**	(274)
Research and development tax credits	**150**	50
Excess capital allowances over depreciation	**76**	153
Income subject to higher tax rates (non-trading income)	**(193)**	(131)
Non taxable income	**4**	6
Losses brought forward	**437**	496
Share of joint ventures' tax	**(65)**	(53)
Chargable gain	**-**	(26)
Income tax	**(12)**	(20)
Adjustments in respect of previous periods	**(96)**	496
Higher tax rates (overseas)	**(471)**	(297)
Deferred tax - origination and reversal of timing differences	**(1,649)**	(464)
Taxation charge on profit on ordinary activities	**(4,933)**	(921)

Notes to Financial Statements

for the year ended 31 December 2017

9. Intangible assets

Software Development Costs	2017	2016
	€'000	€'000
Cost		
At 1 January	**24,563**	23,084
Additions	**363**	1,479
Disposals	**(333)**	-
At 31 December	**24,593**	24,563
Amortisation		
At 1 January	**18,573**	15,488
Charged during the year	**2,104**	3,085
Disposals	**(333)**	-
Translation adjustment	**(5)**	-
At 31 December	**20,339**	18,573
Net Book Value		
At 31 December	**4,254**	5,990

Notes to Financial Statements

for the year ended 31 December 2017

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 2016	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
Additions	5,426	113	4,947	262	2,058	12,806
Impairment	-	-	(150)	-	-	(150)
Disposals	(84)	(71)	(21,394)	(62)	-	(21,611)
Transferred (to)/from Investment Properties	(6,380)	4,430	-	-	-	(1,950)
Transferred from CIP	199	-	933	-	(1,132)	-
Translation adjustments	(152)	-	(429)	(1)	-	(582)
At 31 December 2017	**182,046**	**6,624**	**227,494**	**6,608**	**2,735**	**425,507**
Depreciation						
At 1 January 2016	43,502	-	140,839	4,119	-	188,460
Charged during year	4,683	-	14,683	716	-	20,082
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
Charged during year	5,108	-	14,130	682	-	19,920
Disposals	(79)	-	(21,384)	(60)	-	(21,523)
Translation adjustments	(67)	-	(316)	-	-	(383)
At 31 December 2017	**52,860**	**-**	**143,440**	**5,408**	**-**	**201,708**
Net Book Value						
At 31 December 2017	**129,186**	**6,624**	**84,054**	**1,200**	**2,735**	**223,799**
At 31 December 2016	**135,139**	**2,152**	**92,577**	**1,623**	**1,809**	**233,300**

Included in disposals for the year are retirements of fixed assets which are no longer in use, with a net book value of €nil (2016: €nil). These assets had a total cost and related accumulated depreciation of €22 million (2016: €3 million).

Notes to Financial Statements
for the year ended 31 December 2017

10. Tangible assets (continued)

Investment Properties	**2017**	2016
	€'000	€'000
Valuation		
At 1 January	**32,628**	12,019
Additions	**416**	446
Transfer from Tangible assets	**6,380**	17,161
Transfer to Tangible assets	**(4,430)**	-
Revaluations	**3,583**	3,002
At 31 December	**38,577**	32,628

Investment properties are stated at open market value at 31 December 2017. The Directors have taken appropriate independent advice from Power Property, professional commercial property consultants and have taken into account general market indicators when considering the valuation of investment property assets at 31 December 2017. 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 Property at 31 December 2017. 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 2017.

11. Investments in joint ventures

	2017	2016
	€'000	€'000
Share of net assets - 1 January	**5,708**	5,502
Share of net results	**214**	177
Share of joint ventures' reserve movements	**(31)**	29
Share of net assets - 31 December	**5,891**	5,708
Loans to joint ventures - Note 31	**144**	140
Balance	**6,035**	5,848

The joint ventures 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 joint ventures are included in Note 34 to these financial statements.

12. Investments in associates

	2017	2016
	€'000	€'000
Share of net assets - 1 January	**390**	382
Share of net results	**21**	8
Balance	**411**	390

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 34 to these financial statements.

Notes to Financial Statements

for the year ended 31 December 2017

13. Other investments

	2017	2016
	€'000	€'000
Unquoted		
Shares at cost - 1 January	**395**	395
Additions	**12**	7
Disposals	**-**	(7)
Shares at cost - 31 December	**407**	395
Quoted		
Shares at fair value - 1 January	**34,462**	38,384
Additions	**11,621**	3,517
Disposals	**(11,188)**	(3,797)
Increase/(decrease) in fair value quoted shares	**492**	(3,642)
Shares at fair value - 31 December	**35,387**	34,462
Loan Stock		
Loan stock at fair value - 1 January	**4,697**	5,359
Redemptions net of additions	**(869)**	(904)
Unwinding of the discount factor	**211**	242
Loan stock at fair value - 31 December	**4,039**	4,697
Total	**39,833**	39,554

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

	2017	2016
	€'000	€'000
Raw materials	**12,676**	11,862
Finished goods	**111,617**	101,626
Goods for resale	**14,835**	14,976
Expense stocks	**5,189**	3,925
	144,317	132,389

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 €17.5 million (2016: €3.2 million).

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for the year ended 31 December 2017

15. Debtors

	2017	2016
	€'000	€'000
Trade debtors	**79,679**	55,408
Other debtors	**7,426**	8,225
Derivative financial instruments - Note 35	**122**	133
Prepayments and accrued income	**19,254**	26,749
Amounts due from related parties	**1,371**	1,645
Corporation tax	**-**	511
VAT	**2,452**	1,516
	110,304	94,187

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 €23.1 million (2016: €24.1 million) of trade debtors at year-end.

16. Creditors falling due within one year

	2017	2016
	€'000	€'000
Bank loans, invoice discounting and overdrafts - Note 18	**8,000**	8,000
Loan notes (including interest accrued) - Note 18	**1,691**	-
Trade creditors	**19,421**	42,560
Provisions, accruals and deferred income	**94,919**	69,652
Amounts due to related parties	**2,183**	2,090
Corporation tax	**2,533**	69
PAYE and PRSI	**2,066**	1,849
Loan stock - Note 20	**348**	308
	131,161	124,528

17. Creditors falling due after more than one year

	2017	2016
	€'000	€'000
Bank loans - Note 18	**74,000**	82,000
Loan notes (including interest accrued) - Note 18	**1,093**	2,662
Revolving fund (including interest accrued) - Note 18	**14,091**	8,536
Corporation tax	**69**	139
Convertible stock - Note 19	**218**	219
Loan stock - Note 20	**368**	324
	89,839	93,880

Notes to Financial Statements

for the year ended 31 December 2017

18. Loans

	2017	2016
	€'000	€'000
Loans repayable, included within creditors, are analysed as follows:		
Wholly repayable within five years:		
Bank loans falling due within one year	**8,000**	8,000
Bank loans falling due between one and two years	**8,000**	8,000
Bank loans falling due between two and five years	**66,000**	74,000
Loan notes (including interest accrued) falling due within one year	**1,691**	-
Loan notes (including interest accrued) falling due greater than one year	**1,093**	2,662
Not wholly repayable within five years:		
Revolving fund (including interest accrued)	**14,091**	8,536
	98,875	101,198

The above loans are repayable as follows:	**Bank Loans**	**Loan Notes**	**Revolving Fund**
	€'000	**€'000**	**€'000**
Year ending 31 December 2018	8,000	1,691	
Year ending 31 December 2019	8,000	492	
Year ending 31 December 2020	8,000	601	3,982
Year ending 31 December 2021	8,000		4,102
Year ending 31 December 2022	50,000		647
Year ending 31 December 2023			
Year ending 31 December 2024			5,360
	82,000	**2,784**	**14,091**

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 €82 million (2016: €90 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 2017

19. Convertible stock

	2017	2016
	€'000	€'000
At 1 January	**219**	222
Stock redeemed	**(1)**	(3)
At 31 December	**218**	219

'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.

20. Loan stock

	2017	2016
	€'000	€'000
At 1 January	**632**	677
Arising on share redemption - Note 24	**386**	345
Loan stock repayment	**(302)**	(390)
At 31 December	**716**	632
Falling due within one year - Note 16	**348**	308
Falling due after more than one year - Note 17	**368**	324

21. Capital grants

	2017	2016
	€'000	€'000
At 1 January	**9,746**	9,894
Received during the year	**-**	1,466
Credited to consolidated income statement	**(1,796)**	(1,614)
At 31 December	**7,950**	9,746

Grants of €18,775,000 (2016: €18,775,000) 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 2017

22. Deferred taxation

	2017 €'000	2016 €'000
At 1 January	**3,434**	3,771
Charged to consolidated income statement - Note 8	**1,649**	464
Charged/(credited) to consolidated statement of comprehensive income - Note 8	**852**	(801)
At 31 December	**5,935**	3,434

An analysis of the deferred tax balance is as follows:		
Timing differences	**2,663**	2,618
Unutilised tax losses	**(1,084)**	(2,082)
Tax on increase in market value of quoted shares	**2,186**	2,594
Tax on revaluation of investment properties	**2,111**	1,097
Tax on defined benefit pension surplus/(deficit)	**59**	(793)
At 31 December	**5,935**	3,434

The Society had an unrecognised deferred tax asset of €809,000 (2016: €809,000) at the end of the year. This asset has not been recognised due to uncertainty surrounding the timing of future profits.

23. Pension asset/(liability)

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 1.00% 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.

Since the previous reporting period a decision has been taken to close the Dairygold Co-operative Society Limited Pension Plan to future accrual with effect from 31 March 2018. This means that active members of the Plan will no longer accrue service in the plan beyond that date. This also means that accrued benefits will no longer be linked to pensionable salary growth in the period to retirement and instead will increase at a rate of CPI plus 0.50% subject to a minimum of 2.50% for the first two years, 2.00% for the following five years and will increase in line with CPI thereafter. A maximum rate of 4.00% in any year will apply throughout the period. The impact of this decision which gave rise to a curtailment gain has been recognised in the financial statements for the year ending 31 December 2017.

Notes to Financial Statements
for the year ended 31 December 2017

23. Pension asset/(liability) (continued)

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

	2017	2016
Inflation rate increase	**1.65%**	1.50%
General payroll rate increase	**1.95%***	1.80%
Pension payment increase	**1.55%**	1.00%
Discount rate	**2.20%**	1.90%

* Subject to a minimum of 2.50% each year for the next two years to reflect the Society's short-term expectations.

Interest income on plan assets:
Interest income on plan assets for 2017 will be determined using an interest rate of 1.90% (2016: 2.60%) 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 2.20% (2016: 1.90%) reflects the market yield on high quality corporate bonds at 31 December 2017. 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 Mercer's best practice. This assumption would be regarded by Mercer to be best estimate and is in line with its assumption adopted by many Irish public limited companies.

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

Weighted average life expectancy:

	As at 31 December 2017		As at 31 December 2016	
	Male	**Female**	Male	Female
Members age 65 (current life expectancy)	**22.3**	**24.2**	22.9	24.9
Members age 45 (life expectancy from age 65)	**24.0**	**26.0**	25.1	27.2

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 0.50%	Decrease by 9.10%
Rate of inflation	Increase by 0.50%	Increase by 8.60%
Rate of salary growth**	Increase by 0.50%	N/A
Rate of mortality	Members live for 1 year longer	Increase by 3.20%

** Since the previous reporting period a decision has been made to close the Plan to future accrual with effect from 31 March 2018. This means that active members in the Plan will no longer accrue service in the plan after that date and accrued benefits will no longer be linked to pensionable salary growth in the period to retirement. As accrued benefits will no longer be linked to pensionable salary growth the Scheme Liability calculation is no longer dependent on the salary growth assumption.

Notes to Financial Statements

for the year ended 31 December 2017

23. Pension asset/(liability) (continued)

Plan assets

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

	2017	2016
Equities and other growth assets	**45.6%**	45.9%
Bonds	**45.0%**	47.3%
Properties and infrastructure	**9.3%**	6.8%
Cash	**0.1%**	0.0%
	100%	100%

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

	2017	2016
	€'000	€'000
Equities and other growth assets	**140,071**	134,710
Bonds	**138,161**	138,714
Properties and infrastructure	**28,477**	20,007
Cash	**280**	70
Fair value of assets	**306,989**	293,501
Present value of scheme liabilities	**(306,516)**	(299,847)
Closing pension asset/(liability)	**473**	(6,346)

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

	2017	2016
	€'000	€'000
Cost arising from employee service in the reporting period	**3,767**	3,282
(Gain)/loss on curtailments/changes	**(1,233)**	254
Gains on settlements	**(663)**	(348)
Administrative expenses	**648**	644
Total charged within operating profit	**2,519**	3,832

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

	2017	2016
	€'000	€'000
Interest income on plan assets	**5,513**	7,119
Interest on past service scheme liabilities	**(5,606)**	(7,076)
Net interest (payable)/receivable and similar (charges)/income relating to pension	**(93)**	43

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for the year ended 31 December 2017

23. Pension asset/(liability) (continued)

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

	2017	2016
	€'000	€'000
Return on plan assets (excluding amounts included in net interest cost)	13,523	14,883
Experience (losses)/gains arising on the pension scheme liabilities	(1,097)	6,995
Changes in assumptions underlying the present value of pension scheme liabilities	(5,809)	(27,515)
Remeasurement gains and (losses) recognised in other comprehensive income	6,617	(5,637)

	2017	2016
Movement in pension scheme assets:	€'000	€'000
Value at 1 January	293,501	276,114
Return on assets	5,513	7,119
Return on plan assets (excluding amounts included in net interest cost)	13,523	14,883
Employer contributions	2,814	3,014
Plan participants' contributions	1,229	1,264
Benefit payments and expenses	(9,591)	(8,893)
Value at 31 December	306,989	293,501

	2017	2016
Movement in pension scheme liabilities:	€'000	€'000
Value at 1 January	(299,847)	(276,048)
Cost (excluding interest):		
(i) Cost arising from employee service in the reporting period	(3,767)	(3,282)
(ii) Gain/(loss) on curtailments/changes	1,233	(254)
(iii) Gain on settlements	663	348
Interest expense	(5,606)	(7,076)
Cash flows		
(i) Benefit payments from plan assets	7,329	7,052
(ii) Participant contributions	(1,229)	(1,264)
(iii) Insurance premiums for risk benefits	495	475
(iv) Settlement payments	1,119	722
Remeasurements		
(i) Effect of the changes in the assumptions	(5,809)	(27,515)
(ii) Effect of experience adjustments	(1,097)	6,995
Value at 31 December	(306,516)	(299,847)

Notes to Financial Statements

for the year ended 31 December 2017

23. Pension asset/(liability) (continued)

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 €160,000 (2016: €207,000).

The last Actuarial Funding Certificate and Funding Standard Reserve Certificate for the Scheme were completed as at 1 December 2016. 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 €3,810,000 (2016: €4,972,000) which comprised of €2,519,000 (2016: €3,832,000) in respect of the defined benefit pension scheme, as noted above, and €1,291,000 (2016: €1,140,000) in respect of the defined contribution schemes (which includes €160,000 (2016: €207,000) 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 2017. Scheme liabilities have been calculated using a consistent projected unit valuation method and compared to the scheme's assets at the valuation date.

24. Share capital

Ordinary shares of €1 each	**2017**	2016
	€'000	€'000
Issued and fully paid		
At 1 January	**88,980**	93,127
Shares issued	**3,492**	20
Shares redeemed	**(1,357)**	(2,189)
Shares cancelled - in accordance with Rule 14	**(15)**	(574)
Shares cancelled - in accordance with Rule 15	**(437)**	(1,404)
At 31 December	**90,663**	88,980

	2017	2016
	€'000	€'000
Cash paid	**(971)**	(1,844)
Arising as loan stock - Note 20	**(386)**	(345)
Shares redeemed	**(1,357)**	(2,189)

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.

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25. Share interest

	2017	2016
	€'000	€'000
Share interest paid @ 1.25% (2016:1.25%)		
Ordinary share capital	**(1,112)**	(1,164)
Release of a provision	**709**	-
	(403)	(1,164)

The Board has recommended that share interest of 1.25% be paid on the share capital and loan stock in issue at 31 December 2017. This will amount to €1,142,000 (2016: €1,112,000) and is subject to approval at the Annual General Meeting.

26. 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.

27. Non-controlling interests

	2017	2016
€	€'000	€'000
At 1 January	**3,554**	3,311
Profit after tax	**490**	311
Dividends paid	**(85)**	(68)
At 31 December	**3,959**	3,554

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

	2017	2016
	€'000	€'000
Operating profit before restructuring costs	**32,402**	17,456
Amortisation of intangible assets	**2,104**	3,085
Depreciation	**19,920**	20,082
Impairment of tangible fixed assets	**150**	-
Capital grants amortisation	**(1,796)**	(1,614)
EBITDA	**52,780**	39,009
Profit on the revaluation of investment properties	**(3,583)**	(3,002)
Present valuing of turnover	**52**	12
Difference between current service pension cost and payments made	**(295)**	818
Cash related to restructuring	**(133)**	(1,075)
Working capital movements		
Increase in stocks	**(11,928)**	(3,139)
(Increase)/decrease in debtors	**(16,628)**	14,000
Increase/(decrease) in creditors	**2,439**	(9,253)
Foreign exchange differences	**(813)**	(4,008)
Taxation		
Corporate income tax paid	**(314)**	(1,296)
Net cash inflow from operating activities	**21,577**	32,066

29. Cash and cash equivalents

	2017	2016
	€'000	€'000
Cash and bank balances	**2,352**	1,269

30. Capital commitments

Future investments and capital expenditure approved by the Board and not provided for in these financial statements amounted to €13,563,603 (2016: €16,534,340).

31. 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 2017 amounted to €10,558,000 (2016: €9,777,000) and €4,816,000 (2016: €4,370,000) respectively. The trading balances outstanding by and to the Society amounted to €1,792,000 (2016: €1,769,000) and €455,000 (2016: €624,000) respectively at the year end. The Society has provided a loan of €144,000 (2016: €140,000) to its joint venture, Malting Company of Ireland Limited.

Notes to Financial Statements

for the year ended 31 December 2017

31. Related party transactions (continued)

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 2017, the purchases from and sales to Munster Cattle Breeding Group Limited amounted to €8,000 (2016: €12,000) and €595,000 (2016: €572,000) respectively. The trading balances outstanding by and to the Society amounted to €16,000 (2016: €39,000) and €121,000 (2016: €63,000) 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 and 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 €18,341,000 (2016: €14,020,000) and €9,007,000 (2016: €7,733,000) respectively. The trading balances outstanding by and to the Society amounted to €391,000 (2016: €321,000) and €916,000 (2016: €1,021,000) respectively at the year end. No specific reserve has been required in 2017 (2016: €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 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 €137,000 (2016: €132,000) and revolving fund balance of €119,000 (2016: €79,000) 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 23. No amounts were prepaid or owing to the schemes at the end of the year.

Key Management Personnel Remuneration

The following sets out the key management remuneration of €3,328,000 (2016: €2,722,000) analysed between the Senior Leadership Team and the Board of Directors.

	2017 Number	2016 Number
Senior Leadership Team	**8**	8
	€'000	€'000
Basic salaries*	**1,642**	1,429
Performance related pay**	**548**	270
Other emoluments	**199**	196
Employer's PRSI	**268**	215
Employer's pension and retirement fund contributions	**248**	229
	2,905	2,339

	2017 Number	2016 Number
Board of Directors	**12**	12
	€'000	€'000
Directors' fees***	**423**	383

* The increase in the Senior Leadership Team basic salaries reflects the reinstatement of voluntary pay cuts applied in 2016 combined with the application of a market benchmarking exercise which had been deferred since 2015.

** The performance related pay entitlement in 2016 was reduced by 50% to reflect the challenging dairy market.

*** The increase in Directors fees reflects the reinstatement of voluntary pay cuts applied in 2016.

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32. 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 2017 of its Irish subsidiaries and as a result they are exempted from filing their individual accounts under the provisions of Section 357 of the Companies Act, 2014.

33. Non-adjusting post balance sheet events

Dairygold Co-Operative Society Limited has an investment in Aryzta AG which has a fair value of €12,187,000 at 31 December 2017. Aryzta AG issued a profit warning to investors on 25 January 2018 and as a result the share price of Aryzta AG fell. The Society’s investment has reduced in value to €7,069,000 by 13 March 2018.

34. 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
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 2017

35. Financial instruments

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

	2017 €'000	2016 €'000
Financial assets		
Measured at fair value through profit and loss		
Investments in listed equity instruments - Note 13	**35,387**	34,462
Forward foreign currency contracts - Note 15	**122**	133
Debt instruments measured at amortised cost		
Convertible loan stock - Note 13	**4,039**	4,697
Measured at undiscounted amounts receivable		
Trade debtors - Note 15	**79,679**	55,408
Amounts due from related undertakings - Note 15	**1,371**	1,645
Equity instruments measured at cost less impairment		
Investments in unlisted equity instruments - Note 13	**407**	395
Financial liabilities		
Measured at amortised cost		
Bank loans - Note 18	**(82,000)**	(90,000)
Revolving fund - Note 18	**(14,091)**	(8,536)
Loan notes - Note 18	**(2,784)**	(2,662)
Loan stock - Note 20	**(716)**	(632)
Convertible stock - Note 19	**(218)**	(219)
Measured at undiscounted amounts payable		
Trade and other creditors - Note 16	**(19,421)**	(42,560)
Amounts due to related parties - Note 16	**(2,183)**	(2,090)

The Society enters into forward foreign currency exchange contracts to mitigate the exchange rate risk for certain foreign currency sales. At 31 December 2017, the outstanding contracts all mature within 8 months (2016: 8 months) of the end of the financial year. The Society is committed to sell US$6,335,000 (2016: US$4,031,000) and £2,809,000 (2016: £114,000) 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 in the consolidated statement of financial position date are determined using quoted prices.

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

	2017 €'000	2016 €'000
Interest Income		
Total interest income for financial assets at amortised cost - Note 6	**220**	243
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through profit and loss - Note 13	**492**	(3,642)

Notes to Financial Statements

for the year ended 31 December 2017

36. Future operating lease income

	2017	2016
	€'000	€'000
The total future minimum lease receipts under non-cancellable operating leases are as follows:		
Leases that expire:		
- within one year	**25**	34
- between one and five years	**921**	1,136
- after five years	**10,512**	11,853
At 31 December	**11,458**	13,023

37. 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.

38. Approval of financial statements

The financial statements were approved for issue and signed by the Board of Directors on 15 March 2018.

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
	2017 €'000	2016 €'000	2015 €'000	2014 €'000	2013 €'000
TURNOVER	**965,525**	756,065	784,869	848,394	847,407
OPERATING PROFIT	**32,402**	17,456	19,213	28,627	27,942
Share of joint ventures	**341**	293	(260)	17	(118)
Share of associates	**25**	11	32	(40)	54
Exceptional items	**(957)**	(1,213)	-	2,563	1,841
Net gains/(net losses) in financial assets at fair value through profit and loss	**492**	(3,642)	(4,274)	5,501	-
Net interest payable	**(5,876)**	(6,051)	(5,477)	(4,445)	(1,952)
PROFIT before taxation	**26,427**	6,854	9,234	32,223	27,767
Taxation	**(4,933)**	(921)	(946)	(5,335)	(2,145)
PROFIT after taxation	**21,494**	5,933	8,288	26,888	25,622
Non-controlling interests	**(490)**	(311)	(442)	(449)	(424)
PROFIT for the financial year	**21,004**	5,622	7,846	26,439	25,198

Five Year Consolidated Statement of Financial Position

	PREPARED UNDER				
	FRS 102				Old Irish GAAP
	2017 €'000	2016 €'000	2015 €'000	2014 €'000	2013 €'000
Net Assets Employed:					
Fixed assets	**312,909**	317,710	333,259	331,759	239,484
Stocks	**144,317**	132,389	129,250	116,370	109,515
Debtors	**110,304**	94,187	107,676	98,390	120,386
Creditors	**(139,000)**	(128,408)	(144,901)	(152,639)	(129,472)
Net bank debt	**(79,648)**	(88,731)	(96,160)	(71,621)	(60,914)
Capital grants	**(7,950)**	(9,746)	(9,894)	(8,768)	(8,257)
Deferred taxation liability	**(5,935)**	(3,434)	(3,771)	(2,203)	(128)
Pension (asset)/liability	**473**	(6,346)	66	(15,152)	3,230
	335,470	**307,621**	**315,525**	**296,136**	**273,844**
Financed by:					
Shareholders' funds	**331,511**	304,067	312,214	293,097	271,254
Non-controlling interests	**3,959**	3,554	3,311	3,039	2,590
TOTAL CAPITAL EMPLOYED	**335,470**	**307,621**	**315,525**	**296,136**	**273,844**

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
	2017	2016	2015	2014	2013
	€'000	€'000	€'000	€'000	€'000
EBITDA:					
Operating profit	**32,402**	17,456	19,213	28,627	27,942
Amortisation of intangible assets	**2,104**	3,085	2,831	2,736	1,359
Depreciation	**19,920**	20,082	20,597	17,150	18,091
Impairment of tangible fixed assets	**150**	-	-	-	-
Grants	**(1,796)**	(1,614)	(1,402)	(1,428)	(1,361)
EBITDA	**52,780**	39,009	41,239	47,085	46,031
Investments	**(13,355)**	(15,015)	(50,933)	(50,692)	(32,118)
Working capital	**(26,117)**	1,608	(6,495)	(3,879)	(12,061)
Finance costs	**(5,382)**	(5,951)	(5,223)	(4,974)	(4,342)
Equity share interest paid	**(1,182)**	(1,386)	(1,275)	(1,141)	(1,126)
Equity financing	**2,133**	(2,285)	(994)	299	204
Member funding	**5,292**	-	1,430	4,336	5,155
Taxation paid	**(314)**	(1,296)	(1,908)	(3,696)	(4,684)
Other	**(3,959)**	(3,247)	(1,249)	956	(180)
Increase/(decrease) in cash in the year	**9,896**	11,437	(25,408)	(11,706)	(3,121)
Non cash movements	**(813)**	(4,008)	869	999	(961)
Movement in net bank debt	**9,083**	7,429	(24,539)	(10,707)	(4,082)
Net bank debt at 1 January	**(88,731)**	(96,160)	(71,621)	(60,914)	(56,832)
NET BANK DEBT AT 31 DECEMBER	**(79,648)**	**(88,731)**	**(96,160)**	**(71,621)**	**(60,914)**

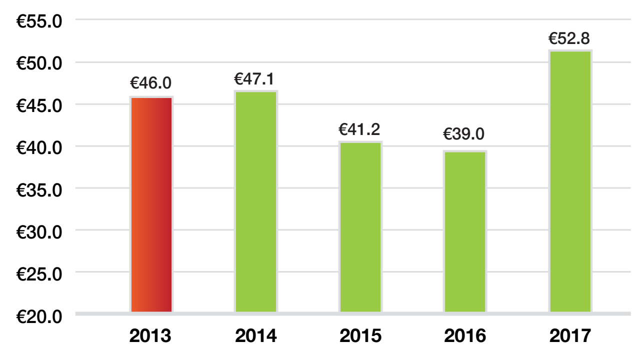
Analysis of net bank debt

	At 1 January 2017 €'000	Cash flow €'000	Non cash movement €'000	At 31 December 2017 €'000
Cash and bank balances	1,269	1,896	(813)	2,352
Bank loans due within one year	(8,000)	-	-	(8,000)
Bank loans due after one year	(82,000)	8,000	-	(74,000)
	(88,731)	9,896	(813)	(79,648)

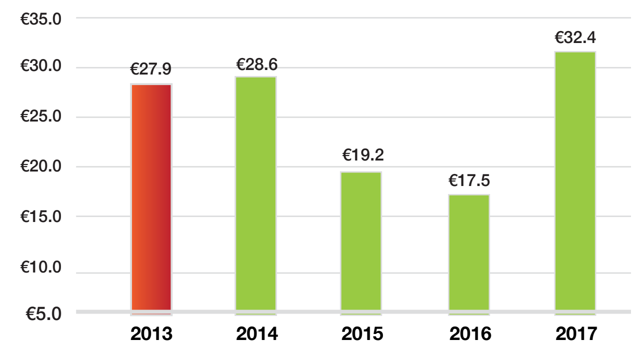
Financial Performance Overview

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

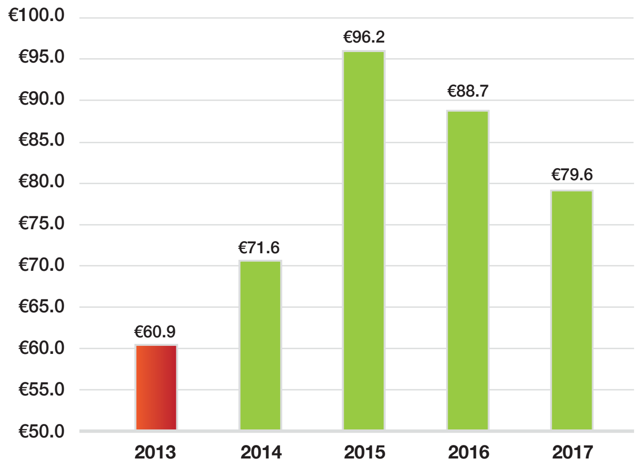
EBITDA €million



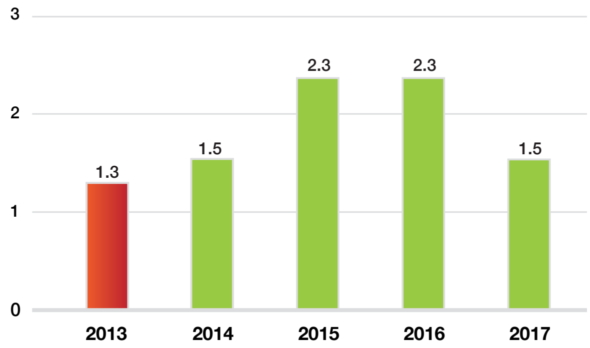
Operating Profit €million



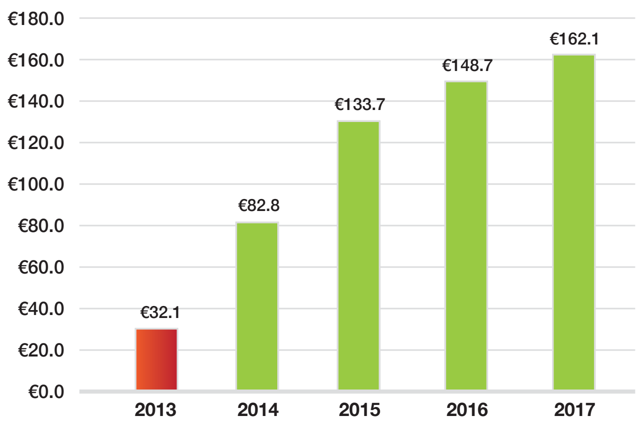
Net Bank Debt €million



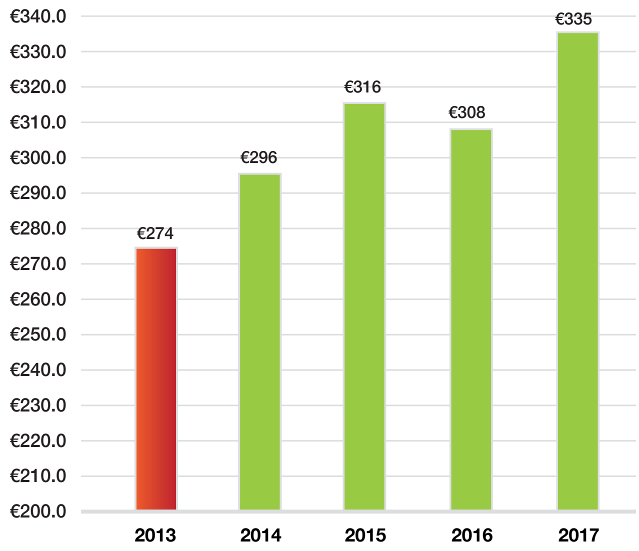
Net Bank Debt: EBITDA



Cumulative investment €million over the last five years



Net Asset Value €million



Prepared under: Old Irish GAAP FRS 102

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