
Donegal

Donegal Investment Group plc

# Annual Report & Financial Statements

for the 8 months ended 31 August 2016

Donegal Investment Group plc ('DIG') ('Group') reports its results for the 8 months ended 31 August 2016. The first 8 months in 2016 saw a significant improvement in the performance of our seed potato business as well as continuing progress with our speciality dairy business.

# Contents

# Financial Highlights

## continuing operations – pre-exceptional

**The financial highlights compare the 8 months ended 31 August 2016 to the 8 months ended 31 August 2015. A copy of the Group's unaudited prelimnary announcement of results dated 28 November 2016 which includes the results and relevant note disclosures for the 8 months ended 31 August 2015 is included in the annex on Page 83.**

### Revenue – continuing operations

**€47.5m** €1.5m ▲

**47.5**
46.0

### Adjusted operating profit

**€1.3m** €1.3m ▲

**1.3**
0.06

### (Loss)/Profit before tax – continuing operations

**(€0.5m)** €2.6m ▼

**(0.5)**
2.1

### Operating cash flow before interest & tax

**€0.7m** €0.7m ▼

**0.7**
1.4

### Adjusted earnings per share*

**10.9c** 4.1c ▼

**10.9**
15.0

### Basic (loss)/earnings per share – continuing operations

**(14.7c)** 38.2c ▼

**(14.7)**
23.5

### Net debt

**€14.9m** €0.6m ▲

**14.9**
14.4

### Dividend per share

**0.05c**

### Investment property carrying value

**€19.0m** €0.7m ▲

**19.0**
18.3

### Net asset value per share**

**€5.8** €0.25 ▼

**5.8**
6.0

* Adjusted earnings per share before the impact of change in fair value of investment properties in group & associates and the related deferred tax
**Net assets are total equity attributable to equity holders of the Company

**Donegal Investment Group plc ('DIG') ('Group') reports its results for the 8 months ended 31 August 2016. The first 8 months in 2016 saw a significant improvement in the performance of our seed potato business as well as continuing progress with our speciality dairy business.**

The Group has changed its year end from 31 December to 31 August. This will allow the Group going forward to have greater visibility on the seasonal performance of its produce and animal feeds business in advance of each new year ending in August.

Group revenue increased by 3.3% to €47.5m driven mainly by growth in our produce division.

Adjusted operating profits increased by €1.3m for the period to €1.3m as a result of improved performance in all businesses.

Speciality dairy, which trades under the NOMADIC brand, continued to grow to plan in both UK and Irish markets.

Smyths, our animal feeds business, again had a satisfactory 2016 with a small reduction in volumes sold being offset by operational efficiencies.

Our Food-Agri & Property division delivered a segmental result of €2.0m, which is €0.7m ahead of like for like performance in 2015 before exceptional costs and property devaluations.

Performance in our produce seed potato business was considerably ahead of the prior period in 2015 with the segmental result of a loss of €0.5m, a significant improvement of €1m over the same period last year. It should be noted the majority of sales generated by this business occur in the months October to December of any year and have a material impact on the bottom line performance of this business in a 12 month period.

As a result of the Court of Appeal's decision to uphold the buyout of Donegal's Shareholding in Monaghan Mushrooms by the majority shareholder in that business we have transferred our investment to an asset held for sale from the 1st January 2016 and will no longer take a share of profits into our results.

Exceptional items (a net loss of €2.5m before tax) are substantially legal costs relating to Donegal's Shareholding in Monaghan Mushrooms. Following on from the Court of Appeal's decision that that no order for costs should apply to the modules connected to the Oppression Action, a provision of €1.8m before tax has been made against a receivable of the same amount.

There were no substantial disposals of non-core assets during the period.

Adjusted EPS of 10.9c down by 4.1c on 2015.

Net debt increased by €0.6m to €14.9m at the 31st August 2016.

Since 31st December 2015 1.9% of the ordinary share capital of the Company was re-purchased as treasury shares at a cost of €1.1m.

Interim dividend of 5.0 cent per share.

Net asset value per share decreased by €0.25 to €5.76.

During the course of the coming year, the Group will continue to review options to further release capital from non-core businesses and assets and has recently marketed the Grianan Estate farm.

# Board of Directors

## The Board of Directors of Donegal Investment Group plc currently comprises seven Non-Executive Directors and two Executive Directors.

### Non-Executive Directors

**Geoffrey Vance** (aged 65) is Chairman of Donegal Investment Group plc. He has served on the Board of Donegal Investment Group plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the Committee of management of Donegal Co-operative Creameries Limited.

**Frank Browne** (aged 63), was appointed to the Board on 29 June 2011. Frank previously served on the Board of Donegal Investment Group plc from 1996 to 2006. He holds no other directorships.

**Michael Griffin** (aged 69) was appointed to the Board on 1 March 2010. Michael is a graduate of UCC and has over 36 years experience in the food industry in Ireland and the UK. Prior to this, he served as an executive director of the Kerry Group plc from 1990 until his retirement in 2004.

**Patrick Kelly Jnr** (aged 43) was appointed to the Board on 7 July 2004. He is chairman of the Audit Committee. He is also a former director of Teagasc and former National Chairman of Macra na Feirme.

**Geoffrey McClay** (aged 51) was appointed to the Board on 1 July 2010. Geoffrey previously served on the Board of Donegal Investment Group plc during the period 2001 to 2006. He is also a director of Mullinacross Enterprises Limited.

## Executive Directors

**Henry McGarvey** (aged 49) was appointed to the Board on 28 August 2013. Henry was previously Managing Director of Pramerica Systems Ireland Limited and is currently a board member of the IDA. Previously, he worked in senior executive positions with Almarai in Saudi Arabia and Motorola and Accenture in Dublin.

**Norman Witherow** (aged 64) was appointed to the Board on 2 July 2003. He is vice chairman of the Board and chairman of the Remuneration Committee. He is also a director of Raphoe Enterprise Company Limited.

**Ian Ireland** (Managing Director), BSC, MBA, Chartered Director (aged 55) joined Donegal Investment Group plc in January 2005. Prior to that he had spent over 20 years working in the food industry in Ireland and the UK.

**Padraic Lenehan** (Finance Director) BCOMM, FCCA (aged 42) was appointed to the Board on 1 July 2015. Padraic joined Donegal Investment Group plc in 2008 as Financial Controller of its Dairy business, where he subsequently became Financial Controller of the merged Aurivo and Donegal Creameries milk business. In 2013 he returned to Donegal Investment Group plc as Head of Finance. Prior to that he worked for RTÉ, Accenture and in financial services in Dublin.

### Secretary and registered office

P Lenehan
Ballyraine
Letterkenny
Co Donegal

### Independent auditor

KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2

### Solicitors

VP McMullin & Son
Letterkenny
Co Donegal

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2

### Principal Bankers

Allied Irish Bank plc
Letterkenny
Co Donegal

### Registered number

162921

# Chairman's Statement

The Group has and will continue to focus on its key strategic assets of produce seed potato and speciality dairy and its interest in Monaghan Middlebrook Mushrooms.

**Geoffrey Vance**
Chairman

During the first eight months of 2016 the Group experienced an improved performance in all of its businesses.

Our produce seed potato business delivered a considerably improved performance in that period despite the impact of difficult trading conditions in Middle Eastern markets. The corrective actions, outlined in our Stock Exchange Release dated 29 April 2016, have been implemented and we believe they will continue to deliver an improved performance in this business for the coming season.

Our animal feeds business again experienced a satisfactory performance in 2016 with marginally reduced volumes being offset by ongoing operational efficiencies.

The continued development and scaling of our speciality dairy business based in Killygordon, Co. Donegal has contributed to a significant improvement in performance.

Following the Court of Appeals decision to uphold the Remedy Order requiring the majority shareholder in Monaghan Middlebrook Mushrooms to purchase our shareholding in this company, this investment is now held as an asset for sale, as its value is expected to be recovered through a sale transaction, and therefore will no longer provide a contribution to our share of profits from associates.

Following on from the appointment of an international real estate firm to consider the future ownership of the Grianan Estate farm, the Board has marketed the Grianan Estate farm, with the process ongoing.

Overall, Group revenue increased by 3.3% to €47.5m and adjusted operating profit increased from €0.1m to €1.3m. This resulted in adjusted earnings per share of 10.9c, a decrease of 4.1c on 2015. The Group's balance sheet remains strong with shareholder funds of €56.8m.

The Group has and will continue to focus on its key strategic assets of produce seed potato and speciality dairy and its interest in Monaghan Middlebrook Mushrooms. As referred to in our recent AGM statement the Board is actively considering, subject to the requirements of the Group's businesses, a return of capital to its shareholders.

## Dividend

An interim dividend of 5.0c per share was paid on 19 December 2016 to shareholders on the register on 9 December 2016.

## AGM

The Company's Annual General Meeting will take place at the Silver Tassie Hotel, Letterkenny, Co. Donegal on 24 May 2017.

**Geoffrey Vance**
Chairman



**Overall, Group revenue increased by 3.3% to €47.5m and adjusted operating profit increased from €0.1m to €1.3m.**

# Managing Director's Review

The Board remains confident in the strong growth potential of the Group's core seed potato business underpinned by increased demand for food from global population growth.

**Ian Ireland**
Managing Director

## Produce Division

Our Produce division comprises the seed potato business IPM Potato Group ('IPM'), AJ Allan in Scotland and An Grianan Grain in Ireland. IPM, the largest business within our Produce division has 30 proprietary potato varieties including names such as Rooster, Burren, Banba, Slaney, Nectar and Electra which it produces and exports to over 40 countries world-wide. Key markets include North Africa, the Middle East, the UK and Ireland. Seed production takes place in dedicated growing areas including Scotland, England, Ireland, France, Holland and Brazil. Both production and sales only take place in territories which recognise and embrace variety copyright regulation. The seed potato business enters into seasonal purchase agreements which expose the business to the risk of losses arising from any inability to sell on these committed quantities and/or achieve the committed price. Whilst our seed potato business is exposed to a number of operational risks typical of a seed production business, it has over time generated strong operating profit margins, low capital expenditure requirements and yielded strong returns on capital. It will be the key strategic focus for the Group going forward.

During the first 8 months of 2016 turnover increased by €1.1m to €13.7m, delivering a segmental loss of €0.5m, a significant improvement on the €1.5m loss experienced in the same period in 2015. It should be noted the majority of sales generated by this business occur in the months of October to December of any year and have a material impact on the bottom line performance of this business in a 12 month period.

Seed potato markets were firm in the first half of the year with the impact of non-performing markets in the Middle East being offset by improved performance in European markets such as the UK. While the harvest of seed potato in several European countries has been negatively impacted by weather conditions, the diverse nature of IPM's growing platform has resulted in normal levels of production of seed being achieved.

As advised previously we are investing in new markets and new varieties and this work continues. We are making good progress in the emerging markets of South America and Africa in developing and securing markets for our seed potatoes and remain very positive about the future potential for our business in these geographical areas. We are also gaining market share in Europe with our new varieties for the fresh segment. Developing seed potato for the processing sector has been a key focus for the business and we are pleased to announce that we have successfully launched new varieties for the processing industry which we are confident will give IPM a greater presence in this sector.

The Board remains confident in the strong growth potential of the Group's core seed potato business underpinned by increased demand for food from global population growth, the westernisation of diets in emerging markets and issues around water availability. IPM's proprietary varieties also have the potential to produce more carbohydrate per unit of water than most of the global carbohydrate staples.

**Seed potato markets were firm in the first half of the year with the impact of non-performing markets in the Middle East being offset by improved performance in European markets such as the UK.**

# Managing Director’s Review (continued)




**Nomadic continued to deliver double digit growth over the eight months to 31 August, particularly in their adult yogurt drinks ranges.**

The Board believes that all of these factors will enable the Group to become a leading global player in seed potato production. The corrective actions referred to in our Stock Exchange Release dated 29 April 2016 have been successfully implemented and should allow this business to continue to deliver an improved performance.

## Food-Agri & Property Division

Overall, revenues in the Food-Agri & Property division increased by €0.4m to €33.8m. This resulted in a segmental result before exceptional and property devaluations of €2.0m, an increase of €0.7m on the prior period performance.

Our speciality dairy business based in Killygordon, Co. Donegal produces a range of ethnic and on-the-go dairy based yogurt products, trading under our NOMADIC brand allows us to maximise the sales and operational synergies in these niche categories.

Nomadic continued to deliver double digit growth over the eight months to 31 August, particularly in their adult yogurt drinks ranges. Having completed the final stage of our three year investment programme in Killygordon, we have just launched some exciting new innovations – Chai yogurt drinks in cups and Bircher Muesli.

Smyths again had a satisfactory performance in 2016 where volumes were down marginally versus 2015 as a result of the challenges being faced by our customers. This business has had a satisfactory start to the new season, nevertheless as stated previously our customers remain challenged with the volatility in milk and beef prices.

As per IFRS reporting requirements all investments including food-agri related property are revalued each period. As outlined previously the Group has decided that it will increase the pro-active management of its property portfolio going forward with the aim of generating capital for investment in its strategic focus areas and improving Group returns on capital employed.

## Associates

Following the Court of Appeals decision to uphold the Remedy Order requiring the majority shareholder in Monaghan Middlebrook Mushrooms to purchase our shareholding in this company, this investment is now held as an asset for sale, as its value is expected to be recovered through a sale transaction, and therefore will no longer provide a contribution to our share of profits from associates.

## Finance and Balance Sheet

The Group has committed bank facilities of €22.3m. Net debt at the period end was €14.9m (31 August 2015: €14.4m).

## Substantial Shareholdings

The issued share capital of Donegal Investment Group plc at 31 August 2016 consists of 10,285,590 ordinary shares. Each share has a nominal value of €0.13. All shares have equal voting and dividend rights. The current shareholdings in excess of 3% of the issued share capital of the Company are as follows:

- HSBC Global Custody Nominee (UK) Limited – Argos Investment Managers S.A – 952,000 (9.26%)
- Goodbody Stockbroker Nominees Limited – 884,711 (8.60%)
- Aurum Nominees Limited – Danbywiske – 495,000 (4.81%)
- Aurum Nominees Limited – Donegal Investment Group plc – 489,664 (4.76%)

## Outlook

Currently all our businesses are on plan for the first half of our new financial year September 2016 to August 2017. We are satisfied with the performance of our produce seed potato business which is now benefitting from the initiatives introduced during 2015 and early 2016 and as first advised in our 2015 preliminary results announcement. Our Food-Agri businesses and in particular our speciality dairy business while continuing its strong volume growth remains challenged by trading conditions post Brexit and the resulting impact on sterling. We will provide guidance on our expected out turn for our new year-end August 2017 at the appropriate time later in the year.

During 2016/2017 year, the Group will continue to review options to release capital from its non-core businesses and assets. As referred to in our recent AGM statement the Board is actively considering, subject to the requirements of the Group's businesses, a return of capital to its shareholders.

The Group continues to concentrate financial and management resources on the strategic areas of produce seed potato, speciality dairy and the Group's interest in Monaghan Middlebrook Mushrooms.

**Ian Ireland**
Managing Director

**We are satisfied with the performance of our produce seed potato business which is now benefitting from the initiatives introduced during 2015 and early 2016.**

# Directors' Report

## The Directors present their report and the audited financial statements for the 8 months ended 31 August 2016. The comparative amounts relate to the year ended 31 December 2015.

The Group has changed the company's year end from 31 December to 31 August. This will allow the Group to have greater visibility on the seasonal performance of its produce and animal feeds business in advance of each new year ending in August going forward.

### Principal activities
During the period, the Group was engaged in the development, purchase and sale of seed potatoes, the manufacture, sale and distribution of farm inputs and dairy products by its Food-Agri business segment and the rental and sales of Food-Agri and property assets.

### Business review
The Chairman's statement and Managing Director's review include a comprehensive review of the Group's businesses. Turnover from continuing operations in the period was €47.5m (2015: €82.9m). The Group recorded an operating profit of €0.8m before exceptional items in comparison with a profit of €1.0m in 2015. Adjusted earnings per share decreased from 26.6 cent in 2015 to 10.9 cent in 2016. Adjusted earnings comprises profit for the period less the impact of changes in valuation of investment properties. In monitoring performance the Directors and management have regard to a range of key performance indicators (KPIs), including the following:

| Financial KPI's* | **8 months ended 31 August 2016** | 12 months ended 31 December 2015 | Change |
|---|---|---|---|
| Operating profit | **€0.8m** | €1.0m | (€0.2m) |
| (Loss)/profit before tax | **(€0.5m)** | €3.8m | (€4.3m) |
| Cash and overdraft, net | **(€3.6m)** | €0.1m | (€3.7m) |
| Net debt (including overdrafts) | **(€14.9m)** | (€12.1m) | €2.8m |
| Net assets attributable to shareholders | **€56.8m** | €60.7m | (€3.9m) |

* Stated before exceptional items

### Profits and dividends
Loss for the financial period amounted to €1.4 million (2015: profit €3.7 million). A final dividend for 2015 of 9.0 cent per share was paid on 26 August 2016. The Directors have approved a final dividend of 5.0 cent per share. This dividend was paid on 19 December 2016 to those shareholders on the register on 9 December 2016.

The results for the financial period ended 31 August 2016 are set out in detail on pages 28 to 82.

### Principal risks and uncertainties
In accordance with the requirement to analyse the key risks and uncertainties facing the future development of the Group and Company, the following have been identified;

- Inability to sell commodities and/or achieve a committed price when there is a commitment to purchase fixed quantities at a fixed price;
- Excess supply and/or reduced consumer demand resulting in reduced selling prices;
- Exposure to end customer markets which are impacted by commodity prices;
- Exposure to changes in economic, political, administrative, taxation or other regulatory factors in any jurisdiction in which the Group operates;
- Contamination of product cycle;
- Ability to sustain commercial relationships with key customers in a competitive environment;
- Ability to utilise debt capacity or obtain financing from financial institutions in the current economic climate;
- Ability to sustain growth through acquisitions;
- Default of counterparties in respect of money owed to the Group;
- The economic conditions in respect of the property market;
- Exposure to interest rate fluctuations; and
- Adverse changes to sterling relative to the euro.

The Directors have analysed these and other risks and appropriate plans are in place to manage and control these risks. The corporate governance report on pages 17 to 21 sets out the policies and approach to risks adopted by the Group and the related internal control procedures and responsibilities.

### Financial management
Our financial risk management objectives and policies and exposure to market risk are outlined in Note 5 to the consolidated financial statements.

### Going concern
The Directors have reviewed the Group's business plan and other relevant information and have a reasonable expectation that the Group will continue in operational existence for the foreseeable future.

In addition, the directors note that certain amounts of the Group's debt fell due for repayment in January 2017, and confirm that the Group's banking facilities have been refinanced with Allied Irish Bank plc, including the €11,000,000 secured bank loan as a two year loan at a nominal interest rate of Euribor +2.5%, post period end. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

## Future developments in the business

A review of future developments in the business is included in the Managing Director's Review on pages 8 to 11.

As previously advised, the Company took a shareholder oppression claim relating to its shareholding in Monaghan. The respondents to this claim were the majority shareholders in Monaghan (the "Respondents"). The Commercial Court, a division of the High Court, gave judgment on 5 December 2014 in an individual module of the case, being the price at which the Respondents might purchase the Company's interest in Elst (the "Valuation Module"). The Court determined this price to be €30.6m. This price was based on a shareholding of 35% in Elst (the "High Court Valuation Order"). In separate proceedings, the Court held that the Respondents had an option to acquire 5% of Elst that was held by the Company. This Option has been exercised and the Company's shareholding in Elst is now 30%. On the basis of a 30% shareholding in Elst, the Company's interest in Elst is valued by the Commercial Court pursuant to the judgment of 5 December 2014 at €26,228,570.

After the Valuation Module, the Commercial Court proceeded to a hearing on oppression and the appropriate remedy that ought to be directed (the "Remedy/Oppression Module"). On 21 May 2015, the Respondents (being the majority shareholders in Elst) admitted specified and unspecified acts of oppression and on 21 May 2015 the Commercial Court ordered the Respondents to purchase the shares held by the Company in Elst at the price fixed by it on 5 December 2014 (the "High Court Remedy Order"). On 5 June 2015, the Commercial Court made an order for costs in respect of the Valuation Module and Remedy/Oppression Module in favour of Donegal (the "High Court Costs Order").

The Company appealed the High Court Valuation Order and High Court Remedy Order to the Court of Appeal. The appeals were heard by the Court of Appeal in April 2016. The Court of Appeal delivered judgment on 8 June 2016. The Court of Appeal allowed the Company's appeal in respect of the High Court Valuation Order. It vacated the said Order and remitted back to the High Court for a rehearing on the price at which the Respondents should purchase the Company's 30% shareholding in Elst (the "Court of Appeal Valuation Order") (the "Rehearing").

The Court of Appeal upheld the decision of the High Court in respect of the High Court Remedy Order save in relation to the precise amount which falls to be determined in the Rehearing.

The Respondents also appealed the High Court Costs Order to the Court of Appeal. The appeal was heard on 7 July 2016 and judgment was delivered on 27 July 2016 allowing the appeal.

The High Court Costs Order was vacated and the Court of Appeal directed that there be no Order as to costs in respect of the Valuation Module and the Remedy/Oppression Module (the "Court of Appeal Costs Order").

The Respondents sought leave to appeal the Court of Appeal Valuation Order to the Supreme Court ("Respondents' SC Appeal") and following that the Company sought leave to appeal the Court of Appeal Costs Order ("DIG SC Costs Appeal"). Leave to appeal was granted by the Supreme Court in both applications and the Supreme Court heard the Respondents' SC Appeal on 31 January 2017. The Rehearing was originally scheduled for December 2016, however, it was vacated pending the outcome of the Respondents' SC Appeal.

Judgment was delivered by the Supreme Court in the Respondents' SC Appeal on 27 February 2017, and the appeal was dismissed. Accordingly, the Rehearing will now take place and the Company will be making an application for the setting of such a date (which will take a number of days) at the earliest appropriate opportunity. Given the length of time a Rehearing will take, it would not be expected to take place for a number of months, but it would be expected to be heard during the second half of 2017.

Now that the Respondents' SC Appeal has been dealt with, the Supreme Court has sought legal submissions from both sides on the DIG SC Costs Appeal and a hearing date will be allocated in due course. Costs accrued during the Respondents' SC Appeal will also be dealt with at the same time as this appeal is dealt with.

## Events since the period end

The Group purchased 3,969 ordinary shares of 13 cent held as treasury shares subsequent to the year end, for a total cost of €22,561. Certain amounts of the Group's banking facilities, including the €11,000,000 secured bank loan which fell due for repayment in January 2017, have been refinanced post period end. There have been no other significant events subsequent to the period end, which would require adjustment to, or disclosure in, the financial statements.

## Board of Directors

The Directors of the Company on 27 February 2017 are listed on pages 4 and 5. Richard Whelan resigned from the Board on 20 January 2017. Patrick Kelly Jnr, Ian Ireland, Frank Browne, and Henry McGarvey retire by rotation, and intend to stand for re-election at the AGM.

The interest of the Directors and secretary are disclosed in the report of the remuneration committee on pages 22 to 24.

## Purchase of own shares

At the Annual General Meeting of the Company held on 26 July 1995, the shareholders sanctioned the requisite alteration to the Articles of Association of the Company to enable the Group to purchase treasury shares and authorised the Group to make market purchases (as defined by Section 328 of the Companies Act 2014). The aggregate nominal value of shares authorised to be so acquired was not to exceed 10% of the aggregate nominal value of the issued share capital of the Company. This authority was renewed at subsequent Annual General Meetings.

# Directors' Report (continued)

At period ended 31 August 2016, 490,695 ordinary shares of 13 cent each were held as treasury shares by Donegal Investment Group plc (2015: 295,456). This represented 4.77% of the called up share capital of the Company (2015: 2.87%). The company purchased 195,239 (2015:232,777) treasury shares at a total cost of €1,099,000 during 2016 (2015: €1,289,000).

## Substantial holdings

As at 22 March 2017, the Company had received notification of the following interests in its ordinary share capital:

| Name | Holding | % |
|---|---|---|
| HSBC Global Custody Nominee (UK) Limited – Argos Investment Managers S.A | 952,000 | 9.26% |
| Goodbody Stockbroker Nominees Limited | 884,711 | 8.60% |
| Aurum Nominees Limited – Danbywiske | 495,000 | 4.81% |
| Aurum Nominees Limited – Donegal Investment Group plc | 489,664 | 4.76% |

Save for the interests referred to above, the Company is not aware of any person who is, directly or indirectly, interested in 3% or more of the issued ordinary share capital of the Company.

## Accounting records

The Directors believe that they have complied with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to maintaining adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the company are maintained at Ballyraine, Letterkenny, Co Donegal.

## Research and development

The Group subsidiary, IPM Potato Group Limited, has invested in potato variety innovation for over 30 years by funding the variety breeding programme at Oak Park Research Centre, Carlow, Ireland. The breeding programme uses the most current breeding techniques and does not utilise genetic modification (G.M.). The development of new and better potato varieties is one of the key elements for a vibrant and resourceful potato industry. IPM consistently release new varieties to cater for the ever-changing requirements of our customers worldwide. The Food-Agri and Property Division is committed to continuous research & development in respect of our added value dairy products through the development of new yogurt products range for the Irish, UK and European markets.

## Relevant audit information

The Directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Group's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Group's statutory auditors are unaware.

## Directors Compliance Statement

The directors acknowledge their responsibility for securing the Group's compliance with its relevant obligation in accordance with Section 225(2)(a) of the Companies Act 2014 and tax laws ("relevant obligations") and confirm the following:

- A compliance policy statement was drawn up during the period setting out the Group's policies;
- appropriate arrangements and structures that are, in the directors' opinion, designed to secure material compliance have been put in place;
- and a review was conducted, during the financial period, of the arrangements and structures that have been put in place to secure the Group's compliance with its relevant obligations.

## Corporate Governance

Compliance with the Group's system of internal control is set out on pages 17 to 21. For the purposes of statutory instrument 450/2009 European Communities (Directive 2006/46) Regulations 2009, the report on Corporate Governance is deemed to form part of the Directors Report.

## Auditor

The auditor, KPMG, has expressed its willingness to be re-appointed in accordance with Section 383(2) of the Companies Act 2014.

## Tax status

The Company is not a close company under the provisions of the Taxes Consolidation Act 1997.

## Subsidiary and associated undertakings

Information relating to subsidiary and associated undertakings is included in note 34 to the financial statements.

## Political contributions

The Group did not make any political donations or incur any political expenditure during the period.

## AGM

The Company's Annual General Meeting will take place at the Silver Tassie Hotel, Letterkenny, Co. Donegal on 24 May 2017. Your attention is drawn to the separate circular enclosed with the annual report and financial statements containing the notice of meeting and an explanatory statement which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

| | |
|---|---|
| **Geoffrey Vance** | **Ian Ireland** |
| *Director* | *Director* |

22 March 2017

# Corporate Governance Report

## Maintaining high standards of corporate governance continues to be a priority of the Directors of Donegal Investment Group plc. The Group has adopted corporate governance policies and procedures appropriate to the scale and complexity of the Group.

This report also takes into account the disclosure requirements set out in the Corporate Governance Annex to the listing rules of the Irish Stock Exchange.

The Directors are accountable to the shareholders for good corporate governance and this report addresses how the Group's policies and procedures have been applied.

### The Board

The Group is controlled through its Board of Directors. The Board's main role is to oversee the operation of the Group, to provide leadership to the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board meet on a regular basis throughout the period and certain matters are specifically reserved to the Board for its decision.

The current specific responsibilities reserved to the Board include; setting Group strategy and approving an annual budget; reviewing operational and financial performance; approving major capital expenditure; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Group; and ensuring that a satisfactory dialogue takes place with shareholders.

The Board has delegated the following responsibilities to management; the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board; implementation of the strategies and policies of the Group as determined by the Board; monitoring of the operating and financial results against plans and budgets; prioritising the allocation of technical and human resources; and developing and implementing risk management systems.

### Membership of the Board

It is our practice that a majority of the Board comprises Non-Executive Directors, considered by the Board to be independent, and that the Chairman is Non-Executive. At present, there are two Executive and eight Non-Executive Directors. Biographical details are set out on pages 4 and 5.

We consider the current size and composition of the Board to be within a range which is appropriate. We also believe that the current size of the Board is sufficiently large to enable its Committees to operate effectively, while being dynamic and responsive to the needs of the Company.

### The roles of the Chairman and the Managing Director

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of all Directors and constructive relations between the Executive Directors and the other Directors, ensures that Directors receive accurate, timely and clear information and manages effective communication with shareholders.

The Managing Director has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group.

### Senior Independent Director

The Board has decided that it will not designate a recognised senior member other than the Chairman to whom concerns of other Board members can be conveyed as it does not consider it necessary.

### Directors and Directors' Independence

All appointments to the Board are approved by the Nomination Committee. There are no formal time limits for service as Director although service periods are kept under ongoing review and each year one third of the Board must retire and be reappointed by the AGM. No Non-Executive Director has a service contract with any Group company.

The Board currently comprises the Chairman, two Executive Directors and seven Non-Executive Directors. The names of the Directors together with their biographical details are set out on pages 4 and 5. The positions of Chairman and Managing Director are held by different persons. The Non-Executive Directors are of sufficient calibre and number that their views carry significant weight in the Boards decision making.

The Group's policy requires the Chairman to hold meetings with the Non-Executive Directors without the Executive Directors being present. Procedures in this regard are formalised, took place in 2016 and are held on a periodic basis and as requested by individual Directors.

Directors have the right to ensure that any concerns they have, which cannot be resolved, about the running of the Group or a proposed action, are recorded in the Board minutes. In addition, upon resignation, a Non-Executive Director will be asked to provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.

# Corporate Governance Report (continued)

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it necessary in order for them to carry out their responsibilities.

The Board believes that all Directors bring the appropriate judgement, knowledge and experience to the Board's deliberations. The Board has in place an annual process to evaluate the independence of Directors and the most recent review concluded that all the Non-Executive Directors are independent, notwithstanding the fact that the majority of the Non-Executive Directors, as farmers, have a business relationship with the Group and the fact that a number have served on the Board for more than nine years. The Directors trade with the Group on normal business terms and it is noted that each director's business relationship with the Group is not considered a material relationship. In reaching their conclusion, the Board considered principles relating to independence and have taken the view that independence is determined by a director's character, objectivity and integrity.

The Non-Executive Directors considered by the Board to be independent:

- have not been employees of the Group within the last five years;
- have not, or had not within the last three years, a material business relationship with the Group;
- do not receive remuneration (other than through Director's fees) or share options;
- have no close family ties with any of the Group's advisers, Directors or senior employees;
- hold no cross-Directorships or have significant links with other Directors through involvement in other companies or bodies; and
- are not significant shareholders.

## Professional development

On appointment, all new Directors take part in an induction programme when they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and Board Committees, the Group's corporate governance practices and procedures, including the responsibilities delegated to Group senior management, and the latest financial information about the Group. This will typically be supplemented by meetings with key senior Executives. Throughout their period in office, the Directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the agriculture industry as a whole, by written briefings and meetings with senior Executives. Directors are also advised on appointment of their legal and other duties and obligations as a director, both in writing and in face-to-face meetings with the Company Secretary. They are also updated on changes to the legal and governance requirements of the Group and upon themselves as Directors.

## Nomination Committee

The Nomination Committee at 31 August 2016 was comprised of three Non-Executive Directors, Geoffrey Vance, who acts as chairman, Patrick Kelly Jnr and Norman Witherow.

The Nomination Committee is responsible for proposing to the Board any new appointments, whether as Executive or Non-Executive Directors of the Company. Appointments to the Board are approved by the Board as a whole. In so doing, the Board considers the balance of skill, knowledge and experience on the Board which is necessary to allow it to meet the strategic vision for the Group. Newly appointed Directors are subject to election by shareholders at the Annual General Meeting following their appointment. Excluding any such newly appointed Directors, one third of the Board is subject to re-election each year.

Appointments to committees are for a period of up to three years which may be extended for two further three year periods provided that the majority of the committee members remain independent.

## Performance evaluation

The Board has a formalised process in place for the annual evaluation of the performance of the Board, its principal Committees and individual Directors in line with Group policy.

As part of the performance evaluation process, the Non-Executive Directors meet annually without the Chairman present to appraise the Chairman's performance, having taken the views of the Executive Directors and the Company Secretary into account.

The chairman conducts a formal evaluation of the performance of all Directors annually. Each Director is provided with feedback gathered from other members of the Board. This process covers the training and development needs of individual Directors, where appropriate. Performance is assessed against a number of measures, including the ability of the Director to contribute to the development of strategy, to understand the major risks affecting the Group and to commit the time required to fulfil the role. As part of that review process the Chairman discusses with each individual their training and development needs and, where appropriate, agrees for suitable arrangements to be put in place to address those needs.

## The Company Secretary

The Company Secretary is a full time employee of the Group. The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association provide that the appointment and removal of the Company Secretary is a matter for the full Board. The Company Secretary is also an Executive Director of the Group.

## Information

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

The Directors receive monthly management accounts and regular management reports and information which enable them to review the Group's and management's performance against agreed objectives.

## Communication with shareholders

The Company has regular dialogue with institutional and major shareholders throughout the period, other than during close periods. All Directors are available to meet with such shareholders throughout the period. The Company also encourages communication with shareholders throughout the period and welcomes their participation at general meetings. The views of the shareholders and the market in general are communicated to the Board on a regular basis, as are expressed views on corporate governance and strategy, as well as the outcome of analyst and broker briefings. Analyst reports on the Group are also circulated to the Board members on a regular basis. The Group's website, www.donegaligroup.com, provides the full text of the Annual Reports, Interim Management Statements and Half Yearly Financial Reports. These can be accessed through the Financial Statements section of the website. Stock Exchange announcements are also made available in the News section of the website, after release to the Stock Exchange.

All Board members attend the Annual General Meeting and are available to answer questions. Separate resolutions are proposed on substantially different issues, and the agenda of business to be conducted at the Annual General Meeting includes a resolution to receive and consider the Annual Report and Financial Statements. The chairman of each of the Board's committees is available at the Annual General Meeting. Notice of the Annual General Meeting, together with the Annual Report and Financial Statements, are sent to shareholders at least twenty working days before the meeting, and details of the proxy votes for and against each resolution and the number of abstentions are announced after each vote on a show of hands.

## Internal Control

An ongoing process exists for identifying, evaluating and managing the significant risks faced by the Group. This process is periodically reviewed by the Directors and has been in place throughout the accounting period and up to the date the financial statements were approved.

The Directors are responsible for the Group's system of internal control, set appropriate policies on internal control, seek regular assurance that will enable them to satisfy themselves that the system is functioning effectively and should ensure that the system of internal control is effective in managing risks in the manner which it has approved. Such a system is designed to manage rather than eliminate business risks and can provide only reasonable rather than absolute assurance against material misstatement or loss.

The Directors have continued to review the effectiveness of the Group's system of financial and Non-financial controls during 2016, including operational and compliance controls, risk management and the Group's high level internal control arrangements. These reviews have included an assessment of internal controls by management, management assurance of the maintenance of controls and reports from the external auditor on matters identified in the course of its statutory audit work.

The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. These business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and controls.

Group management has responsibility for major strategic development and financing decisions. Responsibility for operational issues is devolved, subject to limits of authority, to operating Company management. Management at all levels are responsible for internal control over the respective business functions they have been delegated. This embedding of the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving business risks, and that significant internal control issues, should they arise, are reported promptly to appropriate levels of management.

The Board receives, on a regular basis, reports on the key risks to the business and the steps being taken to manage such risks. It considers whether the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

The Directors consider that, given its size, the Group does not currently require an internal audit function.

The Audit Committee, a formally constituted sub-Committee of the Board, meet on a regular basis with the external auditor and satisfies itself as to the adequacy of the Group's internal control systems.

The Group operates procedures to ensure that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

The preparation and issue of financial reports, including the consolidated financial statements is managed by the Group finance department. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by the Group finance department. The Group finance department supports all reporting entities with guidance in the preparation of

# Corporate Governance Report (continued)

financial information. This process is supported by a network of finance managers throughout the Group, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion of reconciliations of financial information to processing systems. The financial information for each entity is subject to a review at reporting entity and group level by senior management.

## Attendance at meetings of the Board, the Remuneration Committee, the Audit Committee and the Nomination Committee

Seven meetings of the Board, four meetings of the Remuneration Committee, four meetings of the Audit Committee and one meeting of the Nomination Committee were held during the period ended 31 August 2016 and the attendance record of each Director is set out in the following table:

| | Board | | Remuneration | | Audit | | Nomination | |
|---|---|---|---|---|---|---|---|---|
| Name | A | B | A | B | A | B | A | B |
| Geoffrey Vance | 7 | 7 | - | - | - | - | 1 | 1 |
| Ian Ireland | 7 | 5 | - | - | - | - | - | - |
| Frank Browne | 7 | 6 | - | - | - | - | - | - |
| Michael Griffin | 7 | 7 | 4 | 4 | - | - | - | - |
| Patrick Kelly Jnr | 7 | 7 | - | - | 4 | 4 | 1 | 1 |
| P Lenehan | 7 | 7 | - | - | - | - | - | - |
| Geoffrey McClay | 7 | 7 | - | - | 4 | 4 | - | - |
| Henry McGarvey | 7 | 6 | 4 | 4 | - | - | - | - |
| Norman Witherow | 7 | 7 | 4 | 4 | - | - | 1 | 1 |
| Richard Whelan | 7 | 7 | - | - | 4 | 4 | - | - |

A – indicates the number of meetings held during the period the Director was a member of the Board and/or Committee
B – indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee

## Remuneration Committee

The Remuneration Committee is comprised of three Non-Executive Directors of which Norman Witherow is chairman. When necessary, Non-Committee members are invited to attend. The Committee's principal responsibilities are:

- to determine, on behalf of the Board, the remuneration and other terms and conditions of employment of the Executive Directors;
- to determine, on behalf of the Board, the pay structures and terms and conditions of other senior personnel (as identified by the Chairman of the Board);
- to act, on behalf of the Board, and take decisions related to pay and pay related matters, as the Chairman of the Board shall determine;
- to act, on behalf of the Board, and take significant decisions on matters such as remuneration policy, benefits, third party recommendations and related issues.

The report of the Remuneration Committee on behalf of the Board is set out on pages 22 to 24.

## Audit Committee

The Audit Committee is comprised of three Non-Executive Directors – Patrick Kelly Jnr (Chairman), Geoffrey McClay and Richard Whelan. Richard Whelan resigned from the audit committee on 20 January 2017. The Committee held four formal meetings during 2016. When necessary, Non-Committee members are invited to attend.

The Audit Committee monitors areas of risk and performance by the Group and ensures the integrity of the Group's financial statements. The Audit Committee is also responsible for monitoring the effectiveness of the external auditor and audit process and makes recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors. This responsibility also ensures an appropriate relationship between the Group and external audit is maintained, including the review of all non-audit services provided. The audit committee performs a self evaluation annually and no issues were identified during the review.

The engagement of the external auditor to provide any Non-audit services must be pre-approved by the Committee where the fee exceeds 20% of the audit fee. During the financial period to 31 August 2016, fees charged in relation to non-audit related services totalled €25,000 (2015: €34,000) in respect of KPMG, the external auditor.

The Audit Committee reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Audit Committee meets with management as required and meets privately with the external auditor.

In 2016 the Audit Committee discharged its responsibilities by:

- reviewing the Group's financial statements for 2015, meeting and reviewing with the external auditor prior to Board approval of the financial statements;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing the potential impact in the Group's financial statements of significant matters and changes arising during the period;
- reviewing and approving the audit fee and reviewing Non-audit fees that may be payable to the Group auditor;
- considered the external auditor's plan for the audit of the Group's financial statements for 2016;
- confirmation of the external auditor's independence and terms of engagement;
- reviewing and redefining the Group's system of risk identification assessment and control to ensure their robustness and effectiveness;
- reporting to the Board on its review of the Group's systems and internal controls and their effectiveness to meet current, future and strategic requirements.

The Corporate Governance report forms part of the Directors' report.

On behalf of the Board

| | |
|---|---|
| **Geoffrey Vance** | **Ian Ireland** |
| *Director* | *Director* |

22 March 2017

# Corporate Social Responsibility Report

**Donegal Investment Group plc is committed to promoting Corporate Social Responsibility (CSR) across the Group. The Group strives to operate best practice in corporate governance, the environment, health & safety and the community & social performance.**

## Corporate governance

The Group's Board complies with the requirements of IFRS reporting along with the Group's corporate governance policies. A review of corporate governance is addressed in the corporate governance report on pages 17 to 21.

## The environment

At a minimum, the Group is committed to complying with all environmental legislative and regulatory requirements in our operations which are located in six countries. Donegal Investment Group plc recognises that good manufacturing practice must incorporate environmental management. The Group conducts its business activities in an environmentally responsible manner and endeavours to ensure that all adopted decisions consider the protection of the environment as documented in the Group's environmental policy. The organic conversion of the Grianan Estate, Ireland's largest organic farm, further cements our commitment to the environment.

## Health and safety

Best practice in health & safety management is embedded in the Group's risk management processes and procedures and applied across the Group. Compliance is maintained through the health & safety officer, continuous high level of staff and management awareness and regular training.

## The community

The Group is also actively involved in the local community within which it operates supporting many important social and community activities such as the Skills @ Work Programme during the period.

# Report of the Remuneration Committee

## Composition of Board and Remuneration Committee

It is the practice of the Company that a majority of the Board comprises Non-Executive Directors and that the chairman be Non-Executive. The Remuneration Committee consists solely of Non-Executive Directors. The Managing Director is fully consulted about remuneration proposals and outside advice is sought when necessary. The current members of the Remuneration Committee are Michael Griffin, Henry McGarvey and Norman Witherow (Committee Chairman).

The terms of reference for the Committee are to determine the Group's policy on Executive remuneration and to consider and approve salaries and other terms of the remuneration package for the Executive Directors and senior personnel.

## Remuneration policy

The Group's policy on senior personnel remuneration recognises that employment and remuneration conditions for senior personnel must properly reward and motivate them to perform in the best interest of the shareholders. Performance related rewards, in which targets are measurable, are a key consideration.

The typical elements of the remuneration package for senior personnel are basic salary and benefits, incentive bonus, pensions and participation in the share option plan.

It is policy to grant options to certain key management across all locations to encourage identification with shareholders' interests.

## Executive Directors' basic salary and benefits

The basic salaries of the Executive Directors are reviewed annually having regard to personal performance, Group performance, changes in responsibilities and competitive market practice in the area of operation. Employment related benefits consist principally of a car allowance and participation in the share option scheme. No fees are payable to the Executive Directors.

## Incentive plan

The Executive Directors are entitled to receive bonus payments as the Remuneration Committee may decide at their absolute discretion.

## Share option scheme

At an extraordinary general meeting held on 27 July 2005 a share option scheme for full time Executives was approved by shareholders. The scheme permits the grant of options limited to 3% of the ordinary share capital of the Company in any three year period. No option is capable of exercise later than seven years after the date of grant. Options are granted at the discretion of the Remuneration Committee. Details of options granted to date and outstanding are set out in note 26 to the financial statements.

In 2015, a share performance plan was put in place that entitles key management and senior employees to a cash payment based on the difference between the deemed share price at the grant date and exercise date. No option is capable of exercise later than seven years after the grant date. Options are granted at the discretion of the Remuneration Committee. Details of options granted to date and outstanding are set out in note 26 to the financial statements.

Additionally, a share option arrangement granted before 7 November 2002 exists. Options granted under this scheme have no expiration. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

## Directors' service contracts

The Managing Director has a service agreement commencing on 1 January 2005 and continuing thereafter unless and until terminated by either party, giving not less than six months' notice. This agreement automatically terminates on the Managing Director reaching the age of sixty five years.

None of the other Directors has a service contract with any member of the Group.

## Directors' remuneration and interests in share capital

Details of Directors' remuneration is given on pages 23 and 24, details of Directors' share options and shareholdings are given on pages 24 and 25 and details of Directors' pensions are set out on page 24.

## Pensions

Executive Directors are entitled to benefits under defined contribution scheme pension arrangements.

## Executive Directors

The following information has been audited as part of the financial statements.

Ian Ireland and Padraic Lenehan (from date of appointment 1 July 2015) are the Executive Directors in place during the current period.

| | 8 months ended 31 August 2016 € | 12 months ended 31 December 2015 € |
|---|---|---|
| **Salaries and benefits** | | |
| Basic salary | **244,284** | 315,803 |
| Benefits (1) | **25,817** | 47,227 |
| | **270,101** | 363,030 |
| **Performance related** | | |
| Annual incentives (2) | **115,765** | 56,539 |
| Pension charge (3) | **52,972** | 74,395 |
| **Total executive directors' remuneration** | **438,838** | 493,964 |
| Average number of Executive Directors | **2** | 1.5 |
| Average basic salary per Executive Director | **219,419** | 182,008 |

| | 8 months ended 31 August 2016 € | 12 months ended 31 December 2015 € |
|---|---|---|
| **Non-Executive Directors** | | |
| Fees and other emoluments | | |
| Fees (4) | **115,805** | 167,565 |
| Other emoluments and benefits | **-** | - |
| | **115,805** | 167,565 |
| Other remuneration | **-** | - |
| **Total Non-Executive Directors' remuneration** | **115,805** | 167,565 |
| Average number of non-Executive Directors | **8** | 8.5 |
| **Total Directors' Remuneration** | **554,643** | 661,529 |

In addition, an expense of €134,623 (2015: €166,033) has been recognised with respect to share options (equity & cash-settled) granted to Executive Directors and management.

**Notes to Directors' Remuneration**
1. Benefits principally relate to a car allowance and expenses paid to Directors.
2. The incentive plan is outlined on page 22.
3. The pension charge represents contributions made to defined contribution scheme pension funds.
4. Eight non-Executive Directors received fees in 2016 (2015: Nine).

| | Basic salary € | Incentive bonus € | Benefits € | Pension & other related costs € | 8 months ended 31 August 2016 Total € | 12 months ended 31 December 2015 Total € |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| I Ireland | **178,394** | **95,998** | **19,150** | **46,382** | **339,924** | 418,581 |
| P Lenehan (appointed, 1 July 2015) | **65,890** | **19,767** | **6,667** | **6,590** | **98,914** | 75,383 |
| | **244,284** | **115,765** | **25,817** | **52,972** | **438,838** | 493,964 |
| **Non-Executive Directors** | | | | | | |
| G Vance (Chairman) | 29,506 | - | - | - | **29,506** | 44,107 |
| F Browne | 8,547 | - | - | - | **8,547** | 12,820 |
| F Devenny (resigned 1 July 2015) | - | - | - | - | **-** | 6,410 |
| M Griffin | 11,903 | - | - | - | **11,903** | 16,940 |
| P Kelly Jnr | 10,888 | - | - | - | **10,888** | 15,161 |
| G McClay | 9,767 | - | - | - | **9,767** | 14,040 |
| H McGarvey | 11,903 | - | - | - | **11,903** | 16,940 |
| R Whelan | 18,903 | - | - | - | **18,903** | 26,245 |
| N Witherow | 14,388 | - | - | - | **14,388** | 14,902 |
| | 115,805 | - | - | - | **115,805** | 167,565 |

# Report of the Remuneration Committee (continued)

## Directors' and secretary's share options

Details of movements on outstanding equity options are set out below:

| | At 31 December 2015 | Granted in 2016 | Expired in 2016 | Exercised in 2016 | At 31 August 2016 | Average Option Price 2016 |
|---|---|---|---|---|---|---|
| | | | | | | € |
| I Ireland | 150,000 | - | - | - | **150,000** | **4.70** |
| | 70,000 | - | - | - | **70,000** | **6.00** |
| | 220,000 | - | - | - | **220,000** | **-** |
| P Lenehan | 60,000 | - | - | - | **60,000** | **6.00** |
| | 60,000 | - | - | - | **60,000** | **-** |

The market price of the Company's shares at 31 August 2016 was €5.60 (2015: €6.0465) and the range during 2016 was €5.10 to €6.10 (2015: €5.00 to €6.10). See note 26 of the financial statements for further information in this regard.

Options are exercisable between the third anniversary of the date of grant and the seventh anniversary of the date of grant.

During the period, 40,000 share performance plan cash-settled options were awarded to Ian Ireland (2015: 40,000) and 30,000 options were awarded to Padraic Lenehan (2015: 30,000). One third of the options can be exercised after one year, one third after two years and one third after three years.

## Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the Directors and secretary in office at 31 August 2016 in the ordinary shares of the Company at 31 August 2016 (or date of appointment, if later) and 31 December 2015 are set out below:

| | 31 August 2016 | 31 December 2015 |
|---|---|---|
| **Directors:** | | |
| G Vance (Chairman) | **179,339** | 189,639 |
| F Browne | **6,917** | 6,917 |
| M Griffin | **25,000** | 25,000 |
| I Ireland | **174,274** | 165,000 |
| P Kelly Jnr | **2,401** | 2,401 |
| P Lenehan | **-** | - |
| G McClay | **16,107** | 12,107 |
| H McGarvey | **7,377** | 3,816 |
| R Whelan | **68,224** | 68,224 |
| N Witherow | **50,471** | 50,471 |

All movements in shareholdings noted above represent purchases / sales on the open market by the Executive Directors.

# Statement of Directors' Responsibilities
## in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial period. Under that law and in accordance with ESM Rules of the Irish Stock Exchange the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable laws and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Group and Company and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable IFRS, as adopted by the EU and comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law, the Directors are also responsible for preparing a Directors' Report that complies with the Companies Act 2014.

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

On behalf of the Board

| **Geoffrey Vance** | **Ian Ireland** |
|---|---|
| *Director* | *Director* |

22 March 2017

# Independent Auditor's Report
to the members of Donegal Investment Group plc

We have audited the Group and Company financial statements ("financial statements") of Donegal Investment Group plc for the period ended 31 August 2016 which comprise the Group Statement of profit or loss and Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) UK and Ireland.

## Opinions and conclusions arising from our audit

**1 Our opinion on the financial statements is unmodified**

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 August 2016 and of its loss for the period then ended;
- the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 August 2016;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

**2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below**

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

**3 We have nothing to report in respect of matters on which we are required to report by exception**

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

## Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

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

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

22 March 2017

**Conall O'Halloran**
for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2.

# Consolidated statement of profit or loss and comprehensive income

for the period ended 31 August 2016

| | Note | Pre-exceptional | (Note 8) Exceptional | 8 Months ended 31 August 2016 Total | Pre-exceptional | (Note 8) Exceptional | Year ended 31 December 2015 Total |
|---|---|---|---|---|---|---|---|
| | | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **Continuing operations** | | | | | | | |
| Revenue | 6 | **47,501** | **-** | **47,501** | 82,883 | - | 82,883 |
| Cost of sales | | **(36,109)** | **-** | **(36,109)** | (62,508) | - | (62,508) |
| **Gross profit** | | **11,392** | **-** | **11,392** | 20,375 | - | 20,375 |
| Other income | 7 | **546** | **-** | **546** | 512 | - | 512 |
| Other expenses | 7 | **(657)** | **-** | **(657)** | (25) | - | (25) |
| Distribution expenses | | **(3,707)** | **-** | **(3,707)** | (9,590) | - | (9,590) |
| Administrative expenses | | **(6,809)** | **(2,545)** | **(9,354)** | (10,274) | 1,284 | (8,990) |
| **(Loss)/profit from operating activities** | | **765** | **(2,545)** | **(1,780)** | 998 | 1,284 | 2,282 |
| Finance income | 11 | **61** | **-** | **61** | 666 | - | 666 |
| Finance expenses | 11 | **(1,371)** | **-** | **(1,371)** | (654) | - | (654) |
| **Net finance (expense)/income** | 11 | **(1,310)** | **-** | **(1,310)** | 12 | - | 12 |
| Share of profit of associates (net of tax) | | **-** | **-** | **-** | 2,745 | (663) | 2,082 |
| **(Loss)/profit before income tax** | | **(545)** | **(2,545)** | **(3,090)** | 3,755 | 621 | 4,376 |
| Income tax credit/(expense) | 12 | **1,262** | **450** | **1,712** | (265) | (390) | (655) |
| **(Loss)/profit for the period/year** | | **717** | **(2,095)** | **(1,378)** | 3,490 | 231 | 3,721 |
| **Other comprehensive income** | | | | | | | |
| *Items that are or may be reclassified to profit or loss:* | | | | | | | |
| Foreign currency translation differences for foreign operations | 11 | | | **(528)** | | | 36 |
| Recycle of currency translation in associate undertaking on exercise of option over financial asset | | | | **-** | | | (46) |
| Currency translation adjustment in associate undertaking | | | | **-** | | | 339 |
| Revaluation of financial instrument in associate undertaking | | | | **-** | | | (259) |
| Recycle of change in fair value of financial instrument in associate undertaking on exercise of option over financial asset | | | | **-** | | | 274 |
| Recycle of change in fair value of available for sale financial asset | | | | **(264)** | | | - |
| Tax on recycle of change in fair value of available for sale financial asset | | | | **88** | | | - |
| Revaluation of available for sale financial asset | 17 | | | **5** | | | 364 |
| Tax on revaluation of available for sale financial asset | 18 | | | **(2)** | | | (120) |
| *Items that will not be reclassified to profit or loss:* | | | | | | | |
| Revaluation of property on reclassification to investment property | | | | **-** | | | 31 |
| Tax on revaluation of property on reclassification to investment property | 18 | | | **-** | | | (10) |
| | | | | **(701)** | | | 609 |
| **Total comprehensive income for the period/year** | | | | **(2,079)** | | | 4,330 |

| | Note | 8 Months ended 31 August 2016 €'000 | Year ended 31 December 2015 €'000 |
|---|---|---|---|
| **(Loss)/profit attributable to:** | | | |
| Equity holders of the Company | | **(1,460)** | 3,617 |
| Non-controlling interest | | **82** | 104 |
| | | **(1,378)** | 3,721 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **(2,014)** | 4,231 |
| Non-controlling interest | | **(65)** | 99 |
| | | **(2,079)** | 4,330 |
| **(Loss)/earning per share** | | | |
| **Basic (loss)/earnings per share (euro cent):** | | | |
| Continuing | 23 | **(14.7)** | 35.7 |
| **Diluted (loss)/earnings per share (euro cent):** | | | |
| Continuing | 23 | **(14.7)** | 35.4 |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

**Geoffrey Vance**
*Director*

**Ian Ireland**
*Director*

# Consolidated statement of financial position
as at 31 August 2016

| | Note | 31 August 2016 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 13 | **12,696** | 14,127 |
| Goodwill | 14 | **3,633** | 3,633 |
| Intangible assets | 14 | **399** | 458 |
| Investment property | 15 | **19,021** | 18,634 |
| Investment in associates | 16 | **1,008** | 24,904 |
| Other investments | 17 | **1,144** | 1,505 |
| Prepayment | 20 | **188** | 189 |
| **Total non-current assets** | | **38,089** | 63,450 |
| Inventories | 19 | **4,419** | 4,822 |
| Trade and other receivables | 20 | **17,800** | 31,997 |
| Current tax | | **43** | 137 |
| Cash at bank | 21 | **-** | 82 |
| Current financial instrument | 28 | **53** | 92 |
| Total current assets before asset held for sale | | **22,315** | 37,130 |
| Asset held for sale | 32 | **23,835** | - |
| **Total current assets** | | **46,150** | 37,130 |
| **Total assets** | | **84,239** | 100,580 |
| **Equity** | | | |
| Share capital | 22 | **1,337** | 1,337 |
| Share premium | 22 | **2,975** | 2,975 |
| Other reserves | 22 | **(2,430)** | (917) |
| Retained earnings | | **54,951** | 57,293 |
| **Total equity attributable to equity holders of the Company** | | **56,833** | 60,688 |
| **Non-controlling interest** | | **1,224** | 1,347 |
| **Total equity** | | **58,057** | 62,035 |
| **Liabilities** | | | |
| Loans and borrowings | 24 | **2** | 11,018 |
| Deferred income | 27 | **94** | 120 |
| Deferred tax liabilities | 18 | **1,797** | 3,560 |
| **Total non-current liabilities** | | **1,893** | 14,698 |
| Trade and other payables | 27 | **9,350** | 22,579 |
| Bank overdraft | 21 | **3,621** | - |
| Loans and borrowings | 24 | **11,318** | 1,268 |
| **Total current liabilities** | | **24,289** | 23,847 |
| **Total liabilities** | | **26,182** | 38,545 |
| **Total equity and liabilities** | | **84,239** | 100,580 |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

**Geoffrey Vance**
*Director*

**Ian Ireland**
*Director*

# Company statement of financial position
## as at 31 August 2016

| | Note | 31 August 2016 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 13 | **3,133** | 3,110 |
| Intangible assets | 14 | **16** | 19 |
| Investment property | 15 | **15,739** | 15,675 |
| Investment in associates | 16 | **975** | 5,362 |
| Other investments | 17 | **4,487** | 4,847 |
| **Total non-current assets** | | **24,350** | 29,013 |
| Trade and other receivables | 20 | **8,144** | 10,522 |
| Current tax | | **24** | 25 |
| Total current assets before asset held for sale | | **8,168** | 10,547 |
| Asset held for sale | 16 | **4,389** | - |
| **Total current assets** | | **12,557** | 10,547 |
| **Total assets** | | **36,907** | 39,560 |
| **Equity** | | | |
| Share capital | 22 | **1,337** | 1,337 |
| Share premium | 22 | **2,975** | 2,975 |
| Other reserves | 22 | **(1,036)** | 96 |
| Retained earnings | | **5,917** | 8,008 |
| **Total equity** | | **9,193** | 12,416 |
| **Liabilities** | | | |
| Loans and borrowings | 24 | **-** | 11,000 |
| Deferred income | 27 | **2** | 2 |
| Deferred tax liabilities | 18 | **1,170** | 2,479 |
| **Total non-current liabilities** | | **1,172** | 13,481 |
| Trade and other payables | 27 | **3,187** | 3,040 |
| Bank overdraft | 21 | **12,055** | 9,423 |
| Loans and borrowings | 24 | **11,300** | 1,200 |
| **Total current liabilities** | | **26,542** | 13,663 |
| **Total liabilities** | | **27,714** | 27,144 |
| **Total equity and liabilities** | | **36,907** | 39,560 |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

**Geoffrey Vance**
*Director*

**Ian Ireland**
*Director*

# Consolidated statement of changes in equity
for the period ended 31 August 2016

| | Note | Share capital €'000 | Share premium €'000 | Translation reserve €'000 | Reserve for own shares €'000 | Revaluation reserves €'000 | Fair value reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | | 1,337 | 2,975 | (2,498) | (1,640) | 4,190 | (1,338) | 369 | 57,293 | 60,688 | 1,347 | 62,035 |
| **Total comprehensive income for the period** | | | | | | | | | | | | |
| Loss for the period | | - | - | - | - | - | - | - | (1,460) | (1,460) | 82 | (1,378) |
| **Other comprehensive income** | | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | (381) | - | - | - | - | - | (381) | (147) | (528) |
| Recycle of change in fair value of available for sale financial asset, net of tax | | - | - | - | - | - | (176) | - | | (176) | - | (176) |
| Change in fair value of available for sale financial assets, net of tax | | - | - | - | - | - | 3 | - | - | 3 | - | 3 |
| **Other comprehensive income** | | - | - | (381) | - | - | (173) | - | - | (554) | (147) | (701) |
| **Total comprehensive income for the period** | | **-** | **-** | **(381)** | **-** | **-** | **(173)** | **-** | **(1,460)** | **(2,014)** | **(65)** | **(2,079)** |
| **Transactions with owners recorded directly in equity** | | | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | | | |
| Dividends paid | 22 | - | - | - | - | - | - | - | (882) | (882) | (58) | (940) |
| Acquisition of treasury shares | | - | - | - | (1,099) | - | - | - | - | (1,099) | - | (1,099) |
| Shared based payments | 26 | - | - | - | - | - | - | 140 | - | 140 | - | 140 |
| **Total contributions by and distributions to owners** | | **-** | **-** | **-** | **(1,099)** | **-** | **-** | **140** | **(882)** | **(1,841)** | **(58)** | **(1,899)** |
| **Balance at 31 August 2016** | | **1,337** | **2,975** | **(2,879)** | **(2,739)** | **4,190** | **(1,511)** | **509** | **54,951** | **56,883** | **1,224** | **58,057** |

€615,000 of the translation reserve and €2,292,000 of the fair value reserve will be recycled to profit or loss on realisation of the investment in associate which is classified as an asset held for sale.

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

| | Note | Share capital €'000 | Share premium €'000 | Translation reserve €'000 | Reserve for own shares €'000 | Revaluation reserves €'000 | Fair value reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | | 1,337 | 2,975 | (2,832) | (351) | 4,169 | (1,597) | 158 | 55,287 | 59,146 | 1,335 | 60,481 |
| **Total comprehensive income for the period** | | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | - | 3,617 | 3,617 | 104 | 3,721 |
| **Other comprehensive income** | | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | 41 | - | - | - | - | - | 41 | (5) | 36 |
| Currency translation adjustment in associate undertaking | | - | - | 339 | - | - | - | - | - | 339 | - | 339 |
| Recycle of currency translation in associate undertaking on exercise of option over financial asset | | - | - | (46) | - | - | - | - | - | (46) | - | (46) |
| Change in fair value of financial instrument in associate undertaking | | - | - | - | - | - | (259) | - | - | (259) | - | (259) |
| Recycle of change in fair value of financial instrument in associate undertaking on exercise of option over financial asset | | - | - | - | - | - | 274 | - | - | 274 | - | 274 |
| Revaluation of property on reclassification to investment property, net of tax | | - | - | - | - | 21 | - | - | - | 21 | - | 21 |
| Change in fair value of available for sale financial assets, net of tax | | - | - | - | - | - | 244 | - | - | 244 | - | 244 |
| **Other comprehensive income** | | - | - | 334 | - | 21 | 259 | - | - | 614 | (5) | 609 |
| **Total comprehensive income for the period** | | **-** | **-** | **334** | **-** | **21** | **259** | **-** | **3,617** | **4,231** | **99** | **4,330** |
| **Transactions with owners recorded directly in equity** | | | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | | | |
| Dividends paid | 22 | - | - | - | - | - | - | - | (1,611) | (1,611) | (87) | (1,698) |
| Acquisition of treasury shares | | - | - | - | (1,289) | - | - | - | - | (1,289) | - | (1,289) |
| Shared based payments | 26 | - | - | - | - | - | - | 211 | - | 211 | - | 211 |
| **Total contributions by and distributions to owners** | | **-** | **-** | **-** | **(1,289)** | **-** | **-** | **211** | **(1,611)** | **(2,689)** | **(87)** | **(2,776)** |
| Balance at 31 December 2015 | | **1,337** | **2,975** | **(2,498)** | **(1,640)** | **4,190** | **(1,338)** | **369** | **57,293** | **60,688** | **1,347** | **62,035** |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

# Company statement of changes in equity
for the period ended 31 August 2016

| | Note | Share capital €'000 | Share premium €'000 | Reserve for own shares €'000 | Other reserve €'000 | Revaluation reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | | 1,337 | 2,975 | (351) | 507 | 616 | 158 | 4,505 | 9,747 |
| Profit for the year | | - | - | - | - | - | - | 5,114 | 5,114 |
| Net change in fair value of available for sale financial assets, net of tax | | - | - | - | 244 | - | - | - | 244 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **244** | **-** | **-** | **5,114** | **5,358** |
| **Transactions with owners recorded directly in equity** | | | | | | | | | |
| Dividends to equity holders | | - | - | - | - | - | - | (1,611) | (1,611) |
| Share based payments | 26 | | | | | | 211 | - | 211 |
| Acquisition of treasury shares | | - | - | (1,289) | - | - | - | - | (1,289) |
| **Total contributions by and distributions to owners** | | - | - | (1,289) | - | - | - | (1,611) | (2,689) |
| **Balance at 31 December 2015** | | **1,337** | **2,975** | **(1,640)** | **751** | **616** | **369** | **8,008** | **12,416** |
| Profit for the period | | - | - | - | - | - | - | (1,209) | (1,209) |
| Recycle of change in fair value of available for sale financial asset, net of tax | | - | - | - | (176) | - | - | - | (176) |
| Net change in fair value of available for sale financial assets, net of tax | | - | - | - | 3 | - | - | - | 3 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **(173)** | **-** | **-** | **(1,209)** | **(1,382)** |
| **Transactions with owners recorded directly in equity** | | | | | | | | | |
| Dividends to equity holders | | - | - | - | - | - | - | (882) | (882) |
| Share based payments | 26 | | | | | | 140 | - | 140 |
| Acquisition of treasury shares | | - | - | (1,099) | - | - | - | - | (1,099) |
| **Total contributions by and distributions to owners** | | - | - | (1,099) | - | - | 140 | (882) | (1,841) |
| **Balance at 31 August 2016** | | **1,337** | **2,975** | **(2,739)** | **578** | **616** | **509** | **5,917** | **9,193** |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows
for the period ended 31 August 2016

| | Note | 8 months ended 31 August 2016 €'000 | 12 months ended 31 December 2015 €'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period/year | | **(1,378)** | 3,721 |
| ***Adjustments for:*** | | | |
| Depreciation | 13 | **755** | 1,317 |
| Amortisation of intangibles | 14 | **103** | 106 |
| Change in fair value of investment property | 15 | **576** | (5) |
| Net finance expense/(income) | 11 | **1,310** | (12) |
| Share of profit of associates | | **-** | (2,082) |
| Gain on sale of property, plant and equipment | 7 | **(17)** | (38) |
| Loss on sale of investment property | 7 | **81** | 19 |
| Loss on sale of subsidiary | 7 | **-** | 6 |
| Gain on sale of other investments | 7 | **(285)** | - |
| Gain on exercise of option over financial asset | | **-** | (436) |
| Share-based payment transactions | 26 | **190** | 246 |
| Income tax (credit)/expense | | **(1,712)** | 655 |
| Change in inventories | | **472** | 492 |
| Change in trade and other receivables | | **14,376** | (1,824) |
| Change in trade and other payables | | **(13,759)** | 2,726 |
| **Cash generated from operating activities** | | **712** | 4,891 |
| Interest paid | | **(204)** | (376) |
| Income tax refunded | | **142** | 65 |
| **Net cash from operating activities** | | **650** | 4,580 |
| **Cash flows from investing activities** | | | |
| Interest received | | **6** | 20 |
| Dividends received | | **2** | 39 |
| Proceeds from sale of property, plant and equipment | | **37** | 69 |
| Proceeds from disposal of investment property | | **76** | 3,224 |
| Proceeds of exercise of option over financial asset | | **-** | 350 |
| Proceeds from sale of other investments | | **386** | - |
| Acquisition of treasury shares | | **(1,099)** | (1,289) |
| Acquisition of property, plant and equipment | | **(894)** | (714) |
| Acquisition of intangibles | | **(37)** | (37) |
| **Net cash (outflow)/generated from investing activities** | | **(1,523)** | 1,662 |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 24 | **(900)** | (1,200) |
| Payment of finance lease liabilities | | **(65)** | (68) |
| Dividend paid to non-controlling interest | | **(58)** | (87) |
| Dividends paid | 22 | **(882)** | (1,611) |
| **Net cash flow from financing activities** | | **(1,905)** | (2,966) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,778)** | 3,276 |
| Cash and cash equivalents at start of period/year | | **82** | (3,300) |
| Effect of exchange rate fluctuations on cash held | | **(925)** | 106 |
| **Cash and cash equivalents at end of period/year** | 21 | **(3,621)** | 82 |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

# Company statement of cash flows

for the period ended 31 August 2016

| | Note | 8 months ended 31 August 2016 €'000 | 12 months ended 31 December 2015 €'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period | | **(1,209)** | 5,114 |
| ***Adjustments for:*** | | | |
| Depreciation | 13 | **18** | 35 |
| Amortisation | 14 | **3** | 5 |
| Change in fair value of investment property | 15 | **137** | (221) |
| Net finance expense/(income) | | **264** | (998) |
| Loss on sale of investment property | | **81** | 19 |
| Gain on sale of other investments | | **(285)** | - |
| Share-based payment transactions | 26 | **190** | 246 |
| Gain on exercise of option over financial asset | | **-** | (3,543) |
| Income tax (credit)/expense | | **(1,135)** | 555 |
| Change in trade and other receivables | | **(581)** | 3,158 |
| Change in trade and other payables | | **2,553** | (2,498) |
| **Cash generated from operating activities** | | **36** | 1,872 |
| Interest paid | | **(213)** | (392) |
| Income tax paid | | **(1)** | (22) |
| **Net cash from operating activities** | | **(178)** | 1,458 |
| **Cash flows from investing activities** | | | |
| Interest received | | **4** | 16 |
| Dividend received | | **2** | 1,315 |
| Proceeds from exercise of option over financial asset | | **-** | 350 |
| Acquisition of property, plant and equipment | | **(41)** | (5) |
| Proceeds from disposal of investment property | | **76** | 3,224 |
| Proceeds from disposal of other investments | | **386** | - |
| Acquisition of treasury shares | | **(1,099)** | (1,289) |
| **Net cash outflow from investing activities** | | **(672)** | 3,611 |
| Cash flows from financing activities | | | |
| Repayment of borrowings | 24 | **(900)** | (1,200) |
| Dividends paid | 22 | **(882)** | (1,611) |
| **Net cash flow from financing activities** | | **(1,782)** | (2,811) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,632)** | 2,258 |
| Cash and cash equivalents at start of period/year | | **(9,423)** | (11,681) |
| **Cash and cash equivalents at end of period/year** | 21 | **(12,055)** | (9,423) |

The notes on pages 37 to 82 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

# Notes to the consolidated financial statements (continued)

## 1. Reporting entity

Donegal Investment Group plc (the “Company”) is a Company incorporated and tax resident in the Republic of Ireland. The consolidated financial statements of the Company as at and for the period ended 31 August 2016 consolidate the financial statements of the Company and its subsidiaries (together referred to as the “Group”) and include the Group’s interest in associates using the equity method of accounting. The Company financial statements deal with the Company as a single entity. The Group is primarily involved in the development, purchase and sale of seed potatoes, the manufacture, sale and distribution of farm inputs and dairy products by its Food-Agri business segment and the rental and sales of Food-Agri property assets.

The consolidated and Company financial statements were authorised for issuance on 22 March 2017.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements for the period ended 31 August 2016 have been prepared in accordance with the International Financial Reporting Standards and Interpretations (together IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (‘EU IFRS). The Company financial statements have been prepared in accordance with EU IFRS, as applied in accordance with the Companies Act 2014, which permits a Company that publishes its consolidated and Company financial statements together to take advantage of the exemption in Section 304 of the Companies Act 2014 from presenting to its members its Company income statement and related notes that form part of the approved Company financial statements.

The Standards and Interpretations applied were those that were effective for accounting periods ending on or before 31 August 2016.

### (b) Basis of preparation

The financial statements are presented in euro, which is the Company’s functional currency. All financial information presented in euro is rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets classified as available-for-sale, investment property and biological assets.

The financial statements have been prepared on the going concern basis. The Directors note that certain amounts of the Group’s debt fell due for repayment in January 2017 and confirm that the Group’s banking facilities have been refinanced with Allied Irish Bank plc, including the €11,000,000 secured bank loan as a two year loan at a nominal interest rate of Euribor +2.5%, post period end.

### (c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied in prior years (in respect of the carrying value of goodwill (note 14), deferred tax (note 18), financial assets and liabilities (note 28)).

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.

### (d) Changes in accounting policies

The following standards, amendments and interpretations were applicable in the financial period beginning 1 January 2016.

- Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IFRS10 IFRS 12 and IAS 28: Investment entities - exception to consolidation.

For all changes to the standards above, the Group has changed its accounting policies accordingly, which did not have a material impact on the financial results or financial position of the Group.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company in the Company financial statements and throughout the Group for the purposes of the consolidated financial statements.

### (a) Basis of consolidation

***(i) Subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has exposure or rights to variable returns and the ability to affect those returns through its power over an investee. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## 3. Significant accounting policies *(continued)*

***(ii) Associates***

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total change in net assets of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations to make payments on behalf of an associate. When the associate is classified as held for sale, equity accounting also ceases.

***(iii) Transactions eliminated on consolidation***

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency**

***(i) Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates at the date that the fair value was determined.

***(ii) Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income and presented in the translation reserve in equity.

**(c) Financial instruments**

***(i) Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus/less any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits and are accounted for at amortised cost. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(n).

*Available-for-sale financial assets*

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)), are recognised in other comprehensive income and presented in the fair value reserve in equity.

When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

***(ii) Derivative financial instruments***

An associate of the Group holds derivative financial instruments to hedge its foreign currency risk exposures. Hedge accounting is not applied to such derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. It also holds interest rate swap derivatives, for which hedge accounting is not applied. Changes in the fair value of these derivatives are recognised in profit or loss as part of the share of profit or loss of the associate.

An associate of the Group holds a derivative financial instrument in respect of a put liability option. Such derivatives are initially valued at fair value; any directly attributable costs are recognised in profit or loss as incurred. Subsequent to initial recognition, the derivative is measured at fair value, with changes therein recognised in other comprehensive income.

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are initially valued at fair value; any directly attributable costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, with changes therein recognised in profit or loss.

# Notes to the consolidated financial statements (continued)

## 3. Significant accounting policies *(continued)*

### (d) Share capital

***(i) Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

***(ii) Repurchase of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to share premium.

### (e) Property, plant and equipment

***(i) Recognition and measurement***

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses (see accounting policy 3(h)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within 'other income' in profit or loss.

***(ii) Reclassification to investment property***

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in other comprehensive income and presented in the revaluation reserve in equity.

Any loss is recognised immediately in profit or loss.

***(iii) Leased assets***

Leases under the terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

***(iv) Subsequent costs***

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that it will produce additional future economic benefits embodied within the part that will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

***(v) Depreciation***

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives are as follows:

- buildings 20 years
- plant and equipment 10 years
- fixtures and fittings 4-10 years
- motor vehicles 4-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### (f) Intangible assets

***(i) Goodwill***

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries and associates. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date control is transferred to the Group. Control exists when the Company has the exposure or rights to variable returns and the ability to affect those returns through its power over the investee.

For acquisitions, the Group measures goodwill at the acquisition date as follows:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 3. Significant accounting policies *(continued)*

*Subsequent measurement*
Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

***(ii) Other intangible assets***
Intangible assets that are acquired by the Group in a business combination are recognised initially at their fair value at the date of acquisition, being their cost to the Group and subsequently at cost less accumulated amortisation and impairment losses. Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

***(iii) Subsequent expenditure***
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss as incurred.

***(iv) Amortisation***
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

- computer software 4 years
- licenses 50 years
- Customer lists and brand related intangibles 3-10 years

**(g) Investment property**
Investment properties are properties which are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods and services or for administrative purposes. Investment properties are measured at fair value with any change therein recognised in profit or loss. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every twelve months.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, the fair value at the date of reclassification becomes its deemed cost for subsequent accounting purposes.

**(h) Impairment**
***(i) Financial assets***
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is reclassified to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

***(ii) Non-financial assets***
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

# Notes to the consolidated financial statements (continued)

## 3. Significant accounting policies *(continued)*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Employee benefits**

***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(j) Share-based payment arrangements**

The grant-date of equity-settled share based arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value. Any changes in the liability are recognised in profit or loss.

**(k) Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(l) Revenue**

***(i) Goods sold***

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. No revenue is recognised if there is significant continuing management involvement with the goods.

***(ii) Rental income***

Rental income from the Group's investment properties is recognised as other income in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

***(iii) Government grants***

Government grants are recognised initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other operating income on a systematic basis over the useful life of the asset.

**(m) Lease payments**

***(i) Operating lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

***(ii) Finance lease payments***

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(n) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale debt securities), dividend income, interest charged on trade receivable balances, gains on the disposal of available-for-sale financial assets and net foreign exchange gains. Interest income is recognised in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

## 3. Significant accounting policies *(continued)*

Finance expenses comprise interest expense on borrowings, net foreign exchange losses and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

**(o) Income tax**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset, where they are in the same jurisdiction.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**(p) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill, including amounts arising in business combinations.

**(q) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

**(r) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(s) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss.

# Notes to the consolidated financial statements (continued)

## 3. Significant accounting policies *(continued)*

**(t) Exceptional Items**

Exceptional items are those that are separately disclosed by virtue of their nature or amount in order to highlight such items within the Statement of Profit or Loss and Comprehensive Income and results for the period. Examples of such items may include significant restructuring programmes, profits or losses on termination of operations, litigation costs and settlements and significant impairments of assets. Group management exercises judgement in assessing each particular item which, by virtue of their scale or nature, should be highlighted and disclosed in the Statement of Profit or Loss and Comprehensive Income and notes to the Group Financial Statements as exceptional items. Exceptional items are included within the Statement of Profit or Loss and Comprehensive Income caption to which they relate and are separately disclosed in the notes to the Group Financial Statements.

**(t) Asset held for sale**

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to stocks, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies and any equity accounted investee is no longer equity accounted. Intangible assets and tangible fixed assets once classified as held for sale or distribution are not amortised or depreciated.

**(u) New standards and interpretations not yet adopted**

A number of new International Financial Reporting Standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 September 2016, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement.

| Standard | IASB effective date (periods beginning) | EU companies effective date (periods beginning) |
|---|---|---|
| IFRS 15: *Revenue from contracts with customers (May 2014)* including amendments to IFRS 15: *Effective date of IFRS 15 (11 September 2015)* | 1 January 2018 (early adoption permitted) | 1 January 2018 (early adoption permitted). |
| IFRS 9 Financial Instruments (24 July 2014) | 1 January 2018 (early adoption permitted) | 1 January 2018 (early adoption permitted). |
| Clarifications to IFRS 15: *Revenue from Contracts with Customers (12 April 2016)* | 1 January 2018 (early application permitted) | Not endorsed, expected to be endorsed H1 2017. |
| Amendments to IFRS 2: *Classification and measurement of share-based payment transactions (20 June 2016)* | 1 January 2018 (early application permitted) | Not endorsed, expected to be endorsed H2 2017. |
| Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* | 1 January 2018 | Not endorsed, expected to be endorsed 2017. |
| IFRS 16: *Leases (13 January 2016)* | 1 January 2019 (early adoption permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard) | Not endorsed, expected to be 2017. |
| Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture (September 2014)* | Deferred indefinitely (pending outcome of research project on the equity method of accounting) | Endorsement postponed. Awaiting IASB developments. |

The Group is still reviewing these upcoming changes to determine the extent of their impact.

## 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Investment property**

External independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the Group's investment property portfolio every period. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation in an orderly transaction between market participants after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property taking into account expected rental growth rates, void periods, occupancy rates and lease incentive costs. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property.

**(ii) Investments in equity and debt securities**

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. Where investments do not have a quoted bid price their fair value is estimated by the Directors based on recent market transactions and other information available at the reporting date.

**(iii) Trade and other receivables and trade and other payables**

The fair value of trade and other receivables and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Where the time to maturity or settlement is less than six months, the cost of the item is deemed to reflect its fair value.

**(iv) Derivatives**

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation method incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of written options issued over Group investments is measured using a Black Scholes option pricing model.

**(v) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**(vi) Share-based payment transactions**

The fair value of employee stock options is measured using a binomial lattice pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 5. Financial risk management

**Overview**

The Group has exposure to the following risks:

- credit risk;
- liquidity risk;
- market risk;
- currency risk; and
- commodity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

# Notes to the consolidated financial statements (continued)

## 5. Financial risk management *(continued)*

**Credit risk**
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

**Trade and other receivables**
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, with the default risk of those customers being impacted by economic and legal changes in their sectors, primarily being the agricultural sector. Customers are subject to initial credit checks including trade references with credit limits reviewed regularly based on purchasing and payment performance. New customers are subject to restricted credit limits until a credit history is established. Due to the established nature of the businesses and customer relationships, the majority of customers have long-standing trading histories with the Group. Management ensure that, where possible, suitable credit arrangements or letters of credit are in place before dealing with new customers outside Ireland and the UK.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

**Liquidity risk**
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

At 31 August 2016 the Group had committed bank facilities of €22.3m (31 December 2015: €24.4m), including a group overdraft facility of €11.0m (31 December 2015: €12.1m) for working capital requirements.

**Market risk**
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

At times, the Group buys forward contracts in order to manage market risks although the use of such instruments is limited.

**Currency risk**
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro (€) and Sterling (GBP). The principal exposure relates to transactions denominated in GBP from entities with Euro functional currencies.

Overdrafts and borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily Euro and GBP. This provides an economic hedge. In 2015 and 2016, the group entered into a foreign exchange hedge to further mitigate foreign currency exposure.

**Commodity risk**
Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The Group's approach to managing commodity risk is to ensure the commodity procurement policy in respect of forward purchasing is consistently applied across the Group and risks are considered and analysed in applying the commodity strategy.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not capable of net settlement.

**Capital management**
The Group considers that its capital comprises share capital, share premium, retained earnings and other reserves (excluding the translation, fair value, non-controlling interest and share options reserves) which amounted to €60.3m at August 2016 (2015: €64.2m).

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitor the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitor the level of dividends to ordinary shareholders.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for awarding shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Executive Directors based on criteria set by the Board of Directors. The Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 6. Segment reporting

**Business segments**

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segments and to assess their performance.

The Group comprises the following reportable business segments:

- Produce: The growing, sales and distribution of seed potatoes and organic produce.
- Food – Agri and Property: The manufacture, sale and distribution of farm inputs and dairy products and rental and sale of property assets.
- Associates: Associates is comprised of our existing investments in Monaghan Middlebrook Mushrooms, North Western Livestock Holdings and Leapgrange. In 2015, Monaghan Middlebrook Mushrooms is by far the most significant associate.

**Geographical segments**

The Group operates in three geographical segments: the Island of Ireland; Europe and the Rest of the World. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of business segments. Segment assets are based on the geographical location of the assets.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's CODM, being the Board. Segment operating profit is used to measure performance, as such information is the most relevant in evaluating the results of the Group's segments. Segment results, assets and liabilities include all items directly attributable to a segment. Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period, excluding expenditure relating to business combinations.

| | Produce | | Food-Agri & Property | | Associates | | Total – Group | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 |
| **Group** | | | | | | | | |
| Total revenues | **13,745** | 33,419 | **33,756** | 49,464 | - | 101,548 | **47,501** | 184,431 |
| Less: Revenue from associates | **-** | - | **-** | - | - | (101,548) | **-** | (101,548) |
| Revenue – continuing operations | **13,745** | 33,419 | **33,756** | 49,464 | - | - | **47,501** | 82,883 |
| Inter-segment revenue | **-** | - | **-** | - | - | - | **-** | - |
| Segment result before exceptional items | **(515)** | (682) | **1,470** | 1,926 | - | 2,745 | **955** | 3,989 |
| Inter-segment charges | **-** | - | **-** | - | - | - | **-** | - |
| **Segmental result from continuing operations before exceptional items** | **(515)** | (682) | **1,470** | 1,926 | - | 2,745 | **955** | 3,989 |
| Exceptional items | | | | | | | **(2,545)** | 621 |
| Share option expense | | | | | | | **(190)** | (246) |
| Net finance (expense)/income | | | | | | | **(1,310)** | 12 |
| Income tax credit/(expense) | | | | | | | **1,712** | (655) |
| (Loss)/profit for the period/year – continuing operations | | | | | | | **(1,378)** | 3,721 |

# Notes to the consolidated financial statements (continued)

## 6. Segment reporting *(continued)*

| | Produce | | Food-Agri & Property | | Associates | | Total – Group | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 |
| Segment assets | **8,850** | 22,770 | **50,493** | 52,732 | **-** | - | **59,343** | 75,502 |
| Investments in associates | **-** | - | **-** | - | **1,008** | 24,904 | **1,008** | 24,904 |
| Cash at bank (unallocated) | | | | | | | **-** | 82 |
| Asset held for sale (unallocated) | | | | | | | **23,835** | - |
| Current financial instrument (unallocated) | | | | | | | **53** | 92 |
| Total assets as reported in Group Balance Sheet | | | | | | | **84,239** | 100,580 |
| Segment liabilities | **1,843** | 13,929 | **7,601** | 8,770 | **-** | - | **9,444** | 22,699 |
| Bank overdraft (unallocated) | | | | | | | **3,621** | - |
| Loans and borrowings (unallocated) | | | | | | | **11,320** | 12,286 |
| Deferred tax (unallocated) | | | | | | | **1,797** | 3,560 |
| Total liabilities as reported in Group Balance Sheet | | | | | | | **26,182** | 38,545 |
| **Other segment information** | | | | | | | | |
| Capital expenditure | **161** | 137 | **770** | 614 | **-** | - | **931** | 751 |
| Depreciation and amortisation | **275** | 482 | **585** | 941 | **-** | - | **860** | 1,423 |
| Change in fair value of investment property and other assets | **-** | - | **571** | (369) | **-** | - | **571** | (369) |

| | Island of Ireland | | Europe | | Rest of world | | Total – Group | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 |
| Total revenue from external customers (by origin) | **40,925** | 73,238 | **5,998** | 9,262 | **578** | 383 | **47,501** | 82,883 |
| Segment assets as reported in Group Balance Sheet | **79,473** | 94,438 | **4,261** | 5,477 | **505** | 665 | **84,239** | 100,580 |
| Capital expenditure | **876** | 656 | **54** | 83 | **1** | 12 | **931** | 751 |

The Group is not reliant on any one customer during the 2016 period (2015: one customer comprised of 14% of total revenues).

## 7. Other (expense)/income – continuing operations

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Income from investment property rentals | **244** | 469 |
| Change in fair value of investment property | **-** | 5 |
| Profit on disposal of property, plant and equipment | **17** | 38 |
| Profit on disposal of other investments | **21** | - |
| Recycle of change in fair value of available for sale financial asset | **264** | - |
| | **546** | 512 |
| Change in fair value of investment property | **(13)** | - |
| Revaluation on reclassification of land and buildings to investment property | **(563)** | - |
| Loss on disposal of subsidiary | **-** | (6) |
| Loss on disposal of investment property | **(81)** | (19) |
| | **(657)** | (25) |
| | **(111)** | 487 |

## 8. Exceptional items

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Such items are included in the Statement of profit or loss and comprehensive income caption to which they relate and are separately disclosed in the notes to the Group Financial Statements.

The Group reports the following exceptional items:

| | | 2016 €'000 | 2015 €'000 |
|---|---|---|---|
| Restructuring costs | a | **(141)** | (50) |
| Associate exceptional costs, net | b | **-** | (663) |
| Reversal of legal costs receivable in respect of oppression action with Monaghan Middlebrook Mushrooms (MMM) | c | **(1,800)** | 1,800 |
| Legal costs payable in respect of the option case with MMM | d | **-** | (240) |
| Accounting profit in respect of the exercise of option over financial asset held by MMM | e | **-** | 436 |
| Legal costs in respect of the ongoing legal case with MMM | f | **(569)** | (617) |
| Legal costs in respect of other legal cases | g | **(35)** | (45) |
| | | **(2,545)** | 621 |
| Income tax credit/(expense) in respect of exceptional items | | **450** | (390) |
| | | **(2,095)** | 231 |

a) Restructuring costs include operational costs redundancy costs, legal, and accounting and taxation advice in respect of costs associated with restructuring the Group.
b) Associate exceptional costs include costs in respect of a change in EU grant funding models and redundancy costs.
c) Estimated legal costs receivable in respect of costs awarded by the Courts in 2015 to the Group in respect of the Oppression Action and overturned by the Courts in 2016.
d) Estimated legal costs payable in respect of costs awarded by the Courts against the Group in respect of share option legal case.
e) Accounting profit in respect of the exercise of the option over financial assets held by MMM.
f) Legal costs are costs in respect of the ongoing legal case with MMM.
g) Legal costs are costs in respect of the other legal cases.

# Notes to the consolidated financial statements (continued)

## 9. Personnel expenses

**Group**

***Employees***

The average number of persons employed by the Group during the period was as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Production | **132** | 125 |
| Stores | **13** | 16 |
| Transport | **17** | 14 |
| Administration | **90** | 84 |
| | **252** | 239 |

The staff costs for the period for the above employees were:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Wages and salaries | **6,109** | 8,343 |
| Social welfare costs | **646** | 901 |
| Pension costs (note 25) | **330** | 491 |
| Share option benefits (note 26) | **190** | 246 |
| | **7,275** | 9,981 |

The director's costs for the period were:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Wages and salaries | **376** | 522 |
| Social welfare costs | **35** | 49 |
| Pension costs (note 25) | **53** | 75 |
| Share option benefits (note 26) | **135** | 166 |
| | **599** | 812 |

**Company**

***Employees***

The average number of persons employed by the Company during the period was as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Administration | **9** | 9 |
| | **9** | 9 |

The staff costs for the period for the above employees were:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Wages and salaries | **667** | 978 |
| Social welfare costs | **67** | 98 |
| Pension costs (note 25) | **80** | 123 |
| Share option benefits (note 26) | **190** | 246 |
| | **1,004** | 1,445 |

## 9. Personnel expenses *(continued)*

The director's costs for the period were:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Wages and salaries | **376** | 522 |
| Social welfare costs | **35** | 49 |
| Pension costs (note 25) | **53** | 75 |
| Share option benefits (note 26) | **135** | 166 |
| | **599** | 812 |

## 10. Statutory and other information

The profit for the period has been arrived at after charging/(crediting) the following amounts:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Grant income | **-** | (16) |
| Depreciation | **755** | 1,317 |
| Amortisation of intangible assets | **103** | 106 |
| Auditor's remuneration – group: | | |
| – audit fees | **88** | 95 |
| – taxation services | **46** | 46 |
| – other non-audit services | **25** | 34 |
| Auditor's remuneration – company: | | |
| – audit fees | **30** | 30 |
| – taxation services | **10** | 10 |
| – other non-audit services | **25** | 10 |

Amounts paid to Directors are disclosed in the report of the Remuneration Committee on pages 22 to 24.

## 11. Finance income and expense – continuing operations

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Recognised in profit or loss** | | |
| Interest income on bank deposits | **4** | 15 |
| Interest income on associate loan stock | **2** | 6 |
| Net foreign exchange gain | **-** | 486 |
| Fair value gain on forward currency contract | **53** | 92 |
| Foreign exchange on associate investment | **-** | 27 |
| Dividends received | **2** | 40 |
| **Finance income** | **61** | 666 |
| Interest expense on bank loans and overdraft | **(204)** | (376) |
| Net foreign exchange loss | **(1,034)** | - |
| Impairment loss on trade receivables | **(70)** | (278) |
| Foreign exchange on associate investment | **(63)** | - |
| **Finance expense** | **(1,371)** | (654) |
| **Net finance (expense)/income recognised in profit or loss** | **(1,310)** | 12 |

# Notes to the consolidated financial statements (continued)

## 11. Finance income and expense – continuing operations *(continued)*

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Recognised directly in other comprehensive income** | | |
| Foreign currency translation differences for foreign operations | **(528)** | 36 |
| **Finance (expense)/income recognised in other comprehensive income, net of tax** | **(528)** | 36 |
| **Finance (expense)/income recognised in other comprehensive income, net of tax** | | |
| Recognised in: | | |
| Translation reserve | **(381)** | 41 |
| Non-Controlling interest | **(147)** | (5) |
| | **(528)** | 36 |

## 12. Income tax (credit)/expense – continuing operations

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Current tax (credit)/expense** | | |
| Current period | **11** | 135 |
| Adjustment for prior periods | **(58)** | 18 |
| | **(47)** | 153 |
| **Deferred tax (credit)/expense** | | |
| Origination and reversal of temporary differences | **(1,665)** | 502 |
| | **(1,665)** | 502 |
| Income tax (credit)/expense excluding share of income tax of associates | **(1,712)** | 655 |

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were enacted on 26 October 2015. Finance Act 2016 further reduced the 18% rate to 17% from 1 April 2020, following substantial enactment on 6 September 2016. Together this will reduce the company's future tax charges accordingly. UK deferred tax balances have been calculated based on the rate applicable to when the balance is expected to unwind (18%).

## 12. Income tax (credit)/expense – continuing operations *(continued)*

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Tax reconciliation** | | |
| (Loss)/profit for period before tax – continuing activities | **(3,090)** | 4,376 |
| Adjustment for share of profit of associates | **-** | (2,082) |
| (Loss)/profit for period before tax, excluding share of profit of associates | **(3,090)** | 2,294 |
| Tax at 12.5% (2015: 12.5%) | **(386)** | 287 |
| Depreciation in excess of capital allowances | **28** | 20 |
| Expenses not allowable for tax purposes | **229** | 174 |
| Income not taxable | **(83)** | (257) |
| Income taxed at higher rate | **9** | - |
| Interest income taxed at higher rate | **2** | 119 |
| Remeasurement of tax base costs of certain investment properties | **(1,204)** | - |
| Timing differences | **(267)** | 408 |
| Rental income taxed at higher rate | **33** | 66 |
| Management charges utilised | **(33)** | (65) |
| Adjustment for prior periods | **(58)** | 18 |
| Income tax withheld | **2** | 1 |
| Losses forward utilised | **(71)** | (116) |
| Losses carried utilised | **169** | - |
| Foreign exchange differences | **(82)** | - |
| Income tax (credit)/expense | **(1,712)** | 655 |

Income tax recognised directly in other comprehensive income:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Tax on available-for-sale financial assets revaluation | **(86)** | 120 |
| Tax on property revaluation | **-** | 10 |
| Total income tax recognised directly in other comprehensive income | **(86)** | 130 |

# Notes to the consolidated financial statements (continued)

## 13. Property, plant and equipment

| | Land and buildings €'000 | Plant and equipment €'000 | Fixtures and fittings €'000 | Motor vehicles & tanks €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Cost or deemed cost** | | | | | |
| Balance at 1 January 2015 | 12,916 | 11,886 | 1,266 | 1,332 | 27,400 |
| Additions | 7 | 422 | 89 | 196 | 714 |
| Disposals | - | (136) | (14) | (166) | (316) |
| Reclassification to land and buildings | 82 | (82) | - | - | - |
| Revaluation on reclassification to investment property | 31 | - | - | - | 31 |
| Reclassification to investment property | (483) | - | - | - | (483) |
| Effect of movements in exchange rates | 128 | 232 | 52 | (2) | 410 |
| Balance at 31 December 2015 | 12,681 | 12,322 | 1,393 | 1,360 | 27,756 |
| Balance at 1 January 2016 | 12,681 | 12,322 | 1,393 | 1,360 | 27,756 |
| Additions | 237 | 317 | 70 | 270 | 894 |
| Disposals | (273) | (8) | (2) | (118) | (401) |
| Revaluation on reclassification to investment property | (770) | - | - | - | (770) |
| Reclassification to investment property | (500) | - | - | - | (500) |
| Effect of movements in exchange rates | (281) | (581) | (138) | (13) | (1,013) |
| **Balance at 31 August 2016** | **11,094** | **12,050** | **1,323** | **1,499** | **25,966** |
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 January 2015 | 2,740 | 8,235 | 404 | 945 | 12,324 |
| Depreciation for the period | 264 | 647 | 221 | 185 | 1,317 |
| Disposals | - | (73) | (5) | (125) | (203) |
| Effect of movements in exchange rates | 14 | 147 | 28 | 2 | 191 |
| Balance at 31 December 2015 | 3,018 | 8,956 | 648 | 1,007 | 13,629 |
| Balance at 1 January 2016 | 3,018 | 8,956 | 648 | 1,007 | 13,629 |
| Depreciation for the period | 172 | 376 | 52 | 155 | 755 |
| Disposals | (273) | (8) | (2) | (98) | (381) |
| Revaluation on reclassification to investment property | (207) | - | - | - | (207) |
| Effect of movements in exchange rates | (42) | (391) | (83) | (10) | (526) |
| **Balance at 31 August 2016** | **2,668** | **8,933** | **615** | **1,054** | **13,270** |
| **Carrying amounts** | | | | | |
| At 1 January 2015 | 10,176 | 3,651 | 862 | 387 | 15,076 |
| At 31 December 2015 | 9,663 | 3,366 | 745 | 353 | 14,127 |
| At 1 January 2016 | 9,663 | 3,366 | 745 | 353 | 14,127 |
| **At 31 August 2016** | **8,426** | **3,117** | **708** | **445** | **12,696** |

**Leased plant and machinery**
The Group leases production equipment under a number of finance lease agreements (see note 24). At 31 August 2016 the net carrying amount of leased plant and machinery was €27,000 (2015: €173,000). Depreciation charged on leased plant and machinery was €4,600 (2015:€61,000).

**Land assets**
The carrying value of land not subject to depreciation at 31 August 2016 was €4.8m (2015: €4.8m).

## 13. Property, plant and equipment *(continued)*

| | Land and buildings €'000 | Plant and equipment €'000 | Fixtures and fittings €'000 | Total €'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Cost or deemed cost** | | | | |
| Balance at 1 January 2015 | 3,759 | 130 | 32 | 3,921 |
| Additions | 1 | - | 4 | 5 |
| Balance at 31 December 2015 | 3,760 | 130 | 36 | 3,926 |
| Balance at 1 January 2016 | 3,760 | 130 | 36 | 3,926 |
| Additions | 41 | - | - | 41 |
| Disposal | (273) | (5) | - | (278) |
| **Balance at 31 August 2016** | **3,528** | **125** | **36** | **3,689** |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 January 2015 | 690 | 68 | 23 | 781 |
| Depreciation for the year | 25 | 6 | 4 | 35 |
| Balance at 31 December 2015 | 715 | 74 | 27 | 816 |
| Balance at 1 January 2016 | 715 | 74 | 27 | 816 |
| Depreciation for the period | 12 | 4 | 2 | 18 |
| Disposal | (273) | (5) | - | (278) |
| **Balance at 31 August 2016** | **454** | **73** | **29** | **556** |
| **Carrying amounts** | | | | |
| At 1 January 2015 | 3,069 | 62 | 9 | 3,140 |
| At 31 December 2015 | 3,045 | 56 | 9 | 3,110 |
| At 1 January 2016 | 3,045 | 56 | 9 | 3,110 |
| **At 31 August 2016** | **3,074** | **52** | **7** | **3,133** |

The carrying value of land not subject to depreciation at 31 August 2016 was €2.8m (2015: €2.8m). The Company holds no finance leases (2015: Nil).

# Notes to the consolidated financial statements (continued)

## 14. Intangible assets – Group

| | Goodwill | Software | Acquisition related intangibles | Total |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **Cost** | | | | |
| Balance at 1 January 2015 | 4,815 | 613 | 358 | 5,786 |
| Additions | - | 37 | - | 37 |
| Translation adjustment | - | (7) | - | (7) |
| Balance at 31 December 2015 | 4,815 | 643 | 358 | 5,816 |
| Balance at 1 January 2016 | 4,815 | 643 | 358 | 5,816 |
| Additions | - | 37 | - | 37 |
| Translation adjustment | - | 2 | - | 2 |
| **Balance at 31 August 2016** | **4,815** | **682** | **358** | **5,855** |
| **Amortisation and impairment losses** | | | | |
| Balance at 1 January 2015 | 1,182 | 419 | 18 | 1,619 |
| Amortisation for the year | - | 85 | 21 | 106 |
| Balance at 31 December 2015 | 1,182 | 504 | 39 | 1,725 |
| Balance at 1 January 2016 | 1,182 | 504 | 39 | 1,725 |
| Amortisation for the period | - | 82 | 21 | 103 |
| Translation adjustment | - | (5) | | (5) |
| **Balance at 31 August 2016** | **1,182** | **581** | **60** | **1,823** |
| **Carrying amounts** | | | | |
| At 1 January 2015 | 3,633 | 194 | 340 | 4,167 |
| At 31 December 2015 | 3,633 | 139 | 319 | 4,091 |
| At 1 January 2016 | 3,633 | 139 | 319 | 4,091 |
| **At 31 August 2016** | **3,633** | **101** | **298** | **4,032** |

Intangible assets are amortised to the income statement over their estimated useful lives as follows: Software – 4 years; Acquisition related intangibles – 3-50 years.

Acquisition related intangibles include licenses and customer and brand related intangibles.

**Impairment testing for cash generating units containing goodwill**

For the purposes of impairment testing, goodwill is allocated to the Group's specific business to which the goodwill originally derived, which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Food-Agri | Produce | Food-Agri | Produce |
| | €'000 | €'000 | €'000 | €'000 |
| Goodwill at start and end of period | **3,069** | **564** | 3,069 | 564 |

Goodwill acquired through business combinations is monitored for impairment annually by review of the performance of each individual acquisition compared to pre-acquisition objectives and budgets.

## 14. Intangible assets – Group *(continued)*

Key assumptions used to assess the recoverable amount of cash generating units and related impairment were:

- Forecasted sales and cash flows are based on management approved budgets for 2017 projected forward for an additional five years with a terminal value, based on the year five cash flows used thereafter. Growth, estimated at 5% per annum, is based on historical organic sales data adjusted by management in their assessment of economic factors affecting the industry. Incremental profit and cashflows resulting from future acquisitions are excluded.
- Forecasted gross margin is based on historically achieved gross margin, adjusted by management in their assessment of competitive factors affecting the industry and opportunities for margin improvement.
- Forecasted cashflows for individual cash generating units are discounted at a rate of 4.5% (2015: 4.5%), representing the Group's weighted average cost of capital.
- The Group assesses the uncertainty of the above estimates by making sensitivity analyses. The discount rate reflects the time value of money and a 20% fluctuation in the rate used would not have led to any impairment. The business risk is included in the determination of the cashflows.

No impairment of goodwill was identified in 2016 as a result of this review (2015: Nil).

**Intangible assets – Company**

| | Software €'000 |
|---|---|
| **Cost** | |
| Balance at 1 January 2015 | 55 |
| Additions | - |
| Balance at 31 December 2015 | 55 |
| Balance at 1 January 2016 | 55 |
| Additions | - |
| **Balance at 31 August 2016** | **55** |
| **Amortisation and impairment losses** | |
| Balance at 1 January 2015 | 31 |
| Amortisation for the year | 5 |
| Balance at 31 December 2015 | 36 |
| Balance at 1 January 2016 | 36 |
| Amortisation for the period | 3 |
| **Balance at 31 August 2016** | **39** |
| **Carrying amounts** | |
| At 1 January 2015 | 24 |
| At 31 December 2015 | 19 |
| At 1 January 2016 | 19 |
| **At 31 August 2016** | **16** |

# Notes to the consolidated financial statements (continued)

## 15. Investment property

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Balance at start of period | **18,634** | 18,177 |
| Change in fair value | **(13)** | 5 |
| Disposal | **(73)** | (50) |
| Reclassification from property plant & equipment | **500** | 483 |
| Effect of movement in exchange rates | **(27)** | 19 |
| **Balance at end of period** | **19,021** | 18,634 |

Investment property includes the Grianan Estate, the Oatfield site in Letterkenny, the Bridgend property and other land and property assets.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| Balance at start of period | **15,675** | 15,504 |
| Change in fair value | **137** | 221 |
| Disposal | **(73)** | (50) |
| **Balance at end of period** | **15,739** | 15,675 |

The fair values of the investment properties are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Where properties are leased over a long period, the valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, when relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Lands yields in 2016 were between 1-2% (2015: 1-2%).

In the absence of current prices in an active market, the valuations are generally prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property.

The property valuations have been prepared in a period which continues to have considerable market uncertainty. As such the fair value of investment properties has been categorised as a level 3 fair value based on the inputs to the valuation techniques used. The table above reflects a reconciliation from the opening balance to the closing balance. As outlined above, the valuation techniques used are based on comparable market transactions and discounted cashflows. The unobservable inputs in the valuations include comparable market prices of land and buildings, and rental yields, whereby an increase or decrease in these inputs would result in a corresponding change in the fair value measurement.

## 16. Investment in associates

**Group**

The Group's share of after tax profits in its associates, substantially all related to Monaghan Middlebrook Mushrooms in 2015, for the period was €Nil (2015: €2,162,000).

| | 2016 Interest in associate €'000 | 2016 Loans to associate €'000 | 2016 Total €'000 | 2015 Interest in associate €'000 | 2015 Loans to associate €'000 | 2015 Total €'000 |
|---|---|---|---|---|---|---|
| Balance at start of period | **24,074** | **830** | **24,904** | 25,524 | 798 | 26,322 |
| Share of increase in net assets after tax | **-** | **-** | **-** | 2,162 | - | 2,162 |
| Interest charged | **-** | **2** | **2** | - | 5 | 5 |
| (Impairment)/reversal of impairment of loan to associate | **-** | **(63)** | **(63)** | - | 27 | 27 |
| Exercise of option granted over investment in associate | **-** | **-** | **-** | (3,612) | - | (3,612) |
| Transfer to asset held for sale (note 32) | **(23,835)** | **-** | **(23,835)** | - | - | - |
| Balance at end of period | **239** | **769** | **1,008** | 24,074 | 830 | 24,904 |

Investments in associates comprise primarily of Monaghan Middlebrook Mushrooms (MMM) and also include North Western Livestock Holdings Limited (NWLH) and Leapgrange Limited.

The total loan notes and interest outstanding from North Western Livestock Holdings Limited at 31 August 2016 is €0.371million (2015: €0.368 million).

At 31 August 2016, land held as investment property by associated companies was re-valued by an independent professional valuer, resulting in an impairment of €63,000 (2015: reversal of impairment €27,000) attributable to the Group, which is included in the finance expense and income in the statement of profit or loss and comprehensive income.

As previously advised, the Company took a shareholder oppression claim relating to its shareholding in Monaghan. The respondents to this claim were the majority shareholders in Monaghan (the "Respondents"). The Commercial Court, a division of the High Court, gave judgment on 5 December 2014 in an individual module of the case, being the price at which the Respondents might purchase the Company's interest in Elst (the "Valuation Module"). The Court determined this price to be €30.6m. This price was based on a shareholding of 35% in Elst (the "High Court Valuation Order"). In separate proceedings, the Court held that the Respondents had an option to acquire 5% of Elst that was held by the Company. This Option has been exercised and the Company's shareholding in Elst is now 30%. On the basis of a 30% shareholding in Elst, the Company's interest in Elst is valued by the Commercial Court pursuant to the judgment of 5 December 2014 at €26,228,570.

After the Valuation Module, the Commercial Court proceeded to a hearing on oppression and the appropriate remedy that ought to be directed (the "Remedy/Oppression Module"). On 21 May 2015, the Respondents (being the majority shareholders in Elst) admitted specified and unspecified acts of oppression and on 21 May 2015 the Commercial Court ordered the Respondents to purchase the shares held by the Company in Elst at the price fixed by it on 5 December 2014 (the "High Court Remedy Order"). On 5 June 2015, the Commercial Court made an order for costs in respect of the Valuation Module and Remedy/Oppression Module in favour of Donegal (the "High Court Costs Order").

The Company appealed the High Court Valuation Order and High Court Remedy Order to the Court of Appeal. The appeals were heard by the Court of Appeal in April 2016. The Court of Appeal delivered judgment on 8 June 2016. The Court of Appeal allowed the Company's appeal in respect of the High Court Valuation Order. It vacated the said Order and remitted back to the High Court for a rehearing on the price at which the Respondents should purchase the Company's 30% shareholding in Elst (the "Court of Appeal Valuation Order") (the "Rehearing").

The Court of Appeal upheld the decision of the High Court in respect of the High Court Remedy Order save in relation to the precise amount which falls to be determined in the Rehearing.

# Notes to the consolidated financial statements (continued)

## 16. Investment in associates *(continued)*

The Respondents also appealed the High Court Costs Order to the Court of Appeal. The appeal was heard on 7 July 2016 and judgment was delivered on 27 July 2016 allowing the appeal. The High Court Costs Order was vacated and the Court of Appeal directed that there be no Order as to costs in respect of the Valuation Module and the Remedy/Oppression Module (the "Court of Appeal Costs Order").

The Respondents sought leave to appeal the Court of Appeal Valuation Order to the Supreme Court ("Respondents' SC Appeal") and following that the Company sought leave to appeal the Court of Appeal Costs Order ("DIG SC Costs Appeal"). Leave to appeal was granted by the Supreme Court in both applications and the Supreme Court heard the Respondents' SC Appeal on 31 January 2017. The Rehearing was originally scheduled for December 2016, however, it was vacated pending the outcome of the Respondents' SC Appeal.

Judgment was delivered by the Supreme Court in the Respondents' SC Appeal on 27 February 2017, and the appeal was dismissed. Accordingly, the Rehearing will now take place and the Company will be making an application for the setting of such a date (which will take a number of days) at the earliest appropriate opportunity. Given the length of time a Rehearing will take, it would not be expected to take place for a number of months, but it would be expected to be heard during the second half of 2017.

Now that the Respondents' SC Appeal has been dealt with, the Supreme Court has sought legal submissions from both sides on the DIG SC Costs Appeal and a hearing date will be allocated in due course. Costs accrued during the Respondents' SC Appeal will also be dealt with at the same time as this appeal is dealt with.

As a result of the Court of Appeals decision to uphold High Court Remedy Order, the Group's share in Monaghan Middlebrook Mushrooms was transferred to an asset held for sale as at 1 January 2016.

Summary financial information for equity accounted investees, substantially all related to Monaghan Middlebrook Mushrooms in 2015, adjusted for differences in accounting policies, not adjusted for the percentage ownership held by the Group:

| | **Total 2016 €'000** | Total 2015 €'000 |
|---|---|---|
| Revenue | **-** | 338,494 |
| Profit from continuing operations | **-** | 6,941 |
| Other comprehensive income | **-** | 266 |
| **Total comprehensive income** | **-** | 7,207 |
| Attributable to NCI | **-** | 164 |
| Attributable to investee shareholders | **-** | 7,043 |
| | | |
| Current assets | **-** | 89,962 |
| Non-current assets | **600** | 223,006 |
| Current liabilities | **-** | (115,657) |
| Non-current liabilities | **-** | (124,132) |
| **Net assets** | **600** | 73,179 |
| Attributable to NCI | **-** | 9,123 |
| Attributable to investee shareholders | **600** | 64,056 |
| | | |
| Groups interest in net assets of associate at 1 January | **24,074** | 25,524 |
| Total comprehensive income attributable to Group | **-** | 2,162 |
| Exercise of option granted over investment in associate | **-** | (3,612) |
| Transfer to asset held for sale | **(23,835)** | - |
| **Carrying amount of interest in associate at end of the period** | **239** | 24,074 |

## 16. Investment in associates *(continued)*

| | 2016 Interest in Associate €'000 | 2016 Loans to Associate €'000 | 2016 Total €'000 | 2015 Interest in Associate €'000 | 2015 Loans to Associate €'000 | 2015 Total €'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Balance at start of period | **4,559** | **803** | **5,362** | 5,263 | 798 | 6,061 |
| Interest charged | **-** | **2** | **2** | - | 5 | 5 |
| Exercise of option granted over investment in associate | **-** | **-** | **-** | (704) | - | (704) |
| Transfer to asset held for sale | **(4,389)** | **-** | **(4,389)** | - | - | - |
| Balance at end of period | **170** | **805** | **975** | 4,559 | 803 | 5,362 |

The movements in the Company balance are explained above.

## 17. Other investments

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| **Non-current investments** | | |
| Available-for-sale equity investments | **1,144** | 1,505 |

Available-for-sale equity investments include €49,700 quoted shares (2015: €49,700), prize bonds held of €100,000 (2015: €100,000) and €994,800 unquoted shares (2015: €1,355,200). Quoted shares have been stated at market value in the manner stated in Note 4 and Note 28. The fair value of unquoted shares with a carrying value of €994,800 (2015: €1,355,200) has been based upon recent market transactions.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Movement during the period | | |
| Balance at start of period | **1,505** | 1,141 |
| Revaluation of available for sale financial assets | **4** | 364 |
| Disposal | **(365)** | - |
| Balance at end of period | **1,144** | 1,505 |

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 28.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| **Non-current investments** | | |
| Available-for-sale financial assets | **995** | 1,355 |
| Investments in subsidiaries | **3,492** | 3,492 |
| | **4,487** | 4,847 |

# Notes to the consolidated financial statements (continued)

## 17. Other investments *(continued)*

| | 2016 Available-for-sale investments €'000 | 2016 Investments in subsidiaries €'000 | 2016 Total €'000 | 2015 Available-for-sale investments €'000 | 2015 Investments in subsidiaries €'000 | 2015 Total €'000 |
|---|---|---|---|---|---|---|
| **Movement during the period** | | | | | | |
| Balance at start of period | **1,355** | **3,492** | **4,847** | 991 | 3,492 | 4,483 |
| Revaluation of available-for-sale financial assets | **5** | **-** | **5** | 364 | - | 364 |
| Disposal | **(365)** | **-** | **(365)** | - | - | - |
| Balance at end of period | **995** | **3,492** | **4,487** | 1,355 | 3,492 | 4,847 |

Available-for-sale equity investments include €49,700 quoted shares (2015: €49,700), prize bonds held of €100,000 (2015: €100,000) and €845,300 unquoted shares (2015: €1,205,300). Quoted shares have been stated at market value in the manner stated in Note 4 and Note 28. The director's estimate of the fair value of the remaining unquoted shares is not significantly different from their cost, being their carrying value.

## 18. Deferred tax assets and liabilities

**Group**

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 €'000 | 2015 €'000 | 2016 €'000 | 2015 €'000 | 2016 €'000 | 2015 €'000 |
| Property, plant and equipment | **-** | - | **(1,175)** | (1,235) | **(1,175)** | (1,235) |
| Investment property | **1,580** | 1,630 | **(2,292)** | (3,580) | **(712)** | (1,950) |
| Available-for-sale financial assets | **-** | - | **(33)** | (31) | **(33)** | (31) |
| Share-based payments | **63** | 46 | **-** | - | **63** | 46 |
| Other deferred tax assets/(liabilities) | **60** | - | **-** | (390) | **60** | (390) |
| Deferred tax assets/(liabilities) | **1,703** | 1,676 | **(3,500)** | (5,236) | **(1,797)** | (3,560) |
| Set off of tax | **(1,703)** | (1,676) | **1,703** | 1,676 | **-** | - |
| Net deferred tax liabilities | **-** | - | **(1,797)** | (3,560) | **(1,797)** | (3,560) |

**Group**

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised in respect of the following items:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Tax losses | **1,568** | 1,954 |
| Investment property | **1,002** | - |

Deferred tax assets have not been recognised in respect of certain tax losses carried forward because it is not probable that future taxable profit will be available against which the relevant Group entity can utilise the benefits there from.

## 18. Deferred tax assets and liabilities *(continued)*

**Company**

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **€'000** | €'000 | **€'000** | €'000 | **€'000** | €'000 |
| Property, plant and equipment | **-** | - | **(806)** | (803) | **(806)** | (803) |
| Investment property | **1,580** | 1,630 | **(2,033)** | (2,931) | **(454)** | (1,301) |
| Available for sale financial asset | **-** | - | **(33)** | (31) | **(33)** | (31) |
| Share-based payments | **63** | 46 | **-** | - | **63** | 46 |
| Other deferred tax assets/(liabilities) | **60** | - | **-** | (390) | **60** | (390) |
| Deferred tax assets/(liabilities) | **1,703** | 1,676 | **(2,872)** | (4,155) | **(1,170)** | (2,479) |
| Set off of tax | **(1,703)** | (1,676) | **1,703** | (1,676) | **-** | - |
| Net tax liabilities | **-** | - | **(1,179)** | - | **(1,170)** | (2,479) |

**Unrecognised deferred tax assets**

The Company had no unrecognised deferred tax assets or liabilities at 31 August 2016 (2015: €Nil).

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| €'000 | Balance at 1 Jan 15 | Recognised in profit or loss | Recognised in other comprehensive income | Foreign exchange | Balance at 31 Dec 15 | **Recognised in profit or loss** | **Recognised in other comprehensive income** | **Foreign exchange** | **Balance at 31 Aug 16** |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| Property, plant and equipment | (1,325) | 55 | - | 35 | (1,235) | **48** | **-** | **12** | **(1,175)** |
| Investment property | (1,863) | (77) | (10) | - | (1,950) | **1,238** | **-** | **-** | **(712)** |
| Available-for-sale financial assets | 205 | (116) | (120) | - | (31) | **(88)** | **86** | **-** | **(33)** |
| Share based payment | 20 | 26 | - | - | 46 | **17** | **-** | **-** | **63** |
| Other deferred tax liabilities | - | (390) | - | - | (390) | **450** | **-** | **-** | **60** |
| | (2,963) | (502) | (130) | 35 | (3,560) | **1,665** | **86** | **12** | **(1,797)** |

| €'000 | Balance 1 Jan 15 | Recognised in profit or loss | Recognised in other comprehensive income | Balance at 31 Dec 15 | **Recognised in profit or loss** | **Recognised in other comprehensive income** | **Balance at 31 Aug 16** |
|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | |
| Property, plant and equipment | (715) | (88) | - | (803) | **(3)** | **-** | **(806)** |
| Investment property | (1,315) | 14 | - | (1,301) | **847** | **-** | **(454)** |
| Available for sale financial asset | 205 | (116) | (120) | (31) | **-** | **(2)** | **(33)** |
| Other deferred tax liabilities | - | (390) | - | (390) | **450** | **-** | **60** |
| Share based payment | 20 | 26 | - | 46 | **17** | **-** | **63** |
| | (1,805) | (554) | (120) | (2,479) | **1,311** | **(2)** | **(1,170)** |

# Notes to the consolidated financial statements (continued)

## 19. Inventories

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Dairy | **148** | 156 |
| Animal feeds | **1,545** | 1,652 |
| Packaging and other stocks | **1,562** | 1,700 |
| Biological assets | **1,164** | 1,314 |
| | **4,419** | 4,822 |

The fair value measurement of produce biological assets has been categorised as Level 2 fair values based on observable market sales data. Produce has been valued using discounted cashflows which considers the present value of the net cashflows expected to be generated by the produce. The estimated fair value would increase or decrease if the estimated price per tonne were higher or lower, the estimated yields per hectare were higher or lower, the estimated harvest and transportation costs were lower or higher and the risk-adjusted discount rates were lower or higher.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Inventories impairment** | | |
| Balance at 1 January | **-** | 20 |
| Impairment reversal | **-** | (20) |
| Balance at 31 December | **-** | - |

In 2016, the impairment of inventories to net realisable value amounted to €Nil (2015: impairment reversal of €20,000). The impairment is included in cost of sales. Total inventory costs of €30,706,000 (2015: €52,350,000) were charged to the statement of profit or loss and comprehensive income.

## 20. Trade and other receivables

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Current trade and other receivables | | |
| Trade receivables | **14,516** | 27,073 |
| Other receivables due from related parties | **39** | 39 |
| Value added tax | **975** | 1,189 |
| Other receivables | **365** | 2,100 |
| Prepayments | **1,905** | 1,596 |
| | **17,800** | 31,997 |
| Non-current trade and other receivables | | |
| Long leasehold interest prepaid | **188** | 189 |
| | **17,988** | 32,186 |

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| Trade receivables | **255** | 692 |
| Other receivables due from subsidiary undertakings | **7,472** | 7,666 |
| Other receivables | **57** | 1,857 |
| Value added tax | **5** | 25 |
| Prepayments | **370** | 282 |
| | **8,159** | 10,522 |

The Group and Company exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

## 21. Cash and cash equivalents

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Bank balances including overdrafts due within one year, net | **(3,621)** | 82 |

At the end of the period end date, the Group held a bank balance of €10,424 offset against a bank overdraft of €14,045.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| Bank balances including overdrafts due within one year, net | **(12,055)** | (9,423) |

At the period end, there was a Group facility with the bank which allows for legal offset of the Group and certain subsidiary bank balances. The Group's and Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

## 22. Capital and reserves

### Share capital and share premium

| | Ordinary shares | |
|---|---|---|
| | 2016 Number | 2015 Number |
| In issue at start of period – Ordinary shares of 13 cent each | **10,285,590** | 10,285,590 |
| In issue at end of period – Ordinary shares of 13 cent each | **10,285,590** | 10,285,590 |

The Group also has issued share options (see note 26).

At 31 August 2016, the authorised share capital comprised 50,000,000 ordinary shares of 13 cent each. (2015: 50,000,000). All issued shares are fully paid.

Share premium represents the excess amount received above nominal value on issuance of ordinary shares.

**Translation reserve**
The translation reserve comprises cumulative foreign currency differences arising from the translation of the net assets of foreign operations until the investments are derecognised.

**Reserve for own shares**
The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 August 2016, the Group held 490,695 of the Company's shares (2015: 295,456). This represented 4.77% (2015: 2.87%) of the issued share capital of the Company. The distribution of retained earnings is restricted by the value of own shares held.

**Fair value reserve**
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, net of deferred tax, until the investments are derecognised or impaired.

**Revaluation reserve**
The revaluation reserve relates to the revaluation of property, plant and equipment and includes revaluation gains or losses upon the reclassification of property, plant and equipment to investment property.

**Share option reserve**
The share option reserve reflects charges relating to granting of share options.

# Notes to the consolidated financial statements (continued)

## 22. Capital and reserves *(continued)*

**Dividends**

The following dividends were declared and paid by the Group:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| €0.09 per qualifying ordinary share (2015: €0.16) | **882** | 1,611 |

A final dividend for 2015 of €0.09 cent per share was paid on 26 August 2016.

After 31 August 2016 dividends of €0.05 per qualifying share were proposed by the Directors for 2016. The proposed dividends have not been provided for as they had not been approved and there are no income tax consequences.

## 23. Earnings per share

The calculation of basic and diluted (loss)/earnings per share is set out below:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **(Loss)/profit attributable to ordinary shareholders** | | |
| (Loss)/profit attributable to ordinary shareholders | **(1,460)** | 3,617 |

| | 2016 Number '000 | 2015 Number '000 |
|---|---|---|
| **Weighted average number of ordinary shares in thousands of shares** | | |
| Weighted average number of ordinary shares in issue for the period | **10,286** | 10,286 |
| Weighted average number of treasury shares | **(369)** | (155) |
| Denominator for basic earnings per share | **9,917** | 10,131 |
| Effect of share options in issue | **-** | 77 |
| Weighted average number of ordinary shares (diluted) at period end | **9,917** | 10,208 |

The Group purchased 195,239 (2015: 232,277) treasury shares at a total price of €1,099,000 (2015: €1,289,000) including transaction costs, in a number of transactions, intended to be used to settle the Group share option scheme.

As the Group incurred a loss in the current period, share options have an anti-dilutive impact and as such have not been included in the diluted loss per share calculation.

| | 2016 | 2015 |
|---|---|---|
| **(Loss)/earnings per share:** | | |
| Basic (loss)/earnings per share (euro cent): | | |
| Continuing | **(14.7)** | 35.7 |
| Diluted (loss)/earnings per share (euro cent): | | |
| Continuing | **(14.7)** | 35.4 |

## 24. Loans and borrowings

### Group

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | **-** | 11,000 |
| Finance lease liabilities | **2** | 18 |
| | **2** | 11,018 |
| **Current liabilities** | | |
| Secured bank loans | **11,300** | 1,200 |
| Finance lease liabilities | **18** | 68 |
| | **11,318** | 1,268 |
| **Total** | **11,320** | 12,286 |

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest rate | Year of maturity | 31 August 2016 Face value €'000 | 31 August 2016 Carrying amount €'000 | 31 December 2015 Face value €'000 | 31 December 2015 Carrying amount €'000 |
|---|---|---|---|---|---|---|---|
| Secured bank loan | eur | Euribor+1.82% | 2017 | **11,000** | **11,000** | 11,000 | 11,000 |
| Secured bank loan | eur | Euribor+2.25% | 2016 | **150** | **150** | 600 | 600 |
| Secured bank loan | eur | Euribor+3.00% | 2016 | **150** | **150** | 600 | 600 |
| Finance lease liabilities | eur | 6% | 2017 | **23** | **20** | 93 | 86 |
| Total interest-bearing liabilities | | | | **11,323** | **11,320** | 12,293 | 12,286 |

### Finance lease liabilities

Finance lease liabilities are payable as follows:

| | Future minimum lease payments 2016 €'000 | Interest 2016 €'000 | Present value of minimum lease payments 2016 €'000 | Future minimum lease payments 2015 €'000 | Interest 2015 €'000 | Present value of minimum lease payments 2015 €'000 |
|---|---|---|---|---|---|---|
| Less than one year | **20** | **2** | **18** | 73 | 5 | 68 |
| Between one and five years | **3** | **1** | **2** | 20 | 2 | 18 |
| | **23** | **3** | **20** | 93 | 7 | 86 |

The €11,000,000 secured bank loan has been refinanced with AIB plc as a two year loan at a nominal interest rate of Euribor +2.5% post period end.

# Notes to the consolidated financial statements (continued)

## 24. Loans and borrowings *(continued)*

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| **Non-current liabilities** | | |
| Secured bank loans | - | 11,000 |
| **Current liabilities** | | |
| Secured bank loans | **11,300** | 1,200 |
| **Total** | **11,300** | 12,200 |

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest rate | Year of maturity | 31 August 2016 Face value €'000 | 31 August 2016 Carrying amount €'000 | 31 December 2015 Face value €'000 | 31 December 2015 Carrying amount €'000 |
|---|---|---|---|---|---|---|---|
| Secured bank loan | eur | Euribor+1.82% | 2017 | **11,000** | **11,000** | 11,000 | 11,000 |
| Secured bank loan | eur | Euribor+2.25% | 2016 | **150** | **150** | 600 | 600 |
| Secured bank loan | eur | Euribor+3.00% | 2016 | **150** | **150** | 600 | 600 |
| Total interest-bearing liabilities | | | | **11,300** | **11,300** | 12,200 | 12,200 |

## 25. Employee benefits

The Group operates four defined contributions schemes, one in the Company and three in subsidiaries.

The assets of the schemes are held separately from those of the Companies in independently administered funds. The pension cost represents contributions payable by the companies to the funds and totalled €330,000 for the period ended 31 August 2016 (2015: €491,000). At 31 August 2016, €28,200 (2015: €19,100) was included within creditors in respect of defined contribution pension liabilities.

## 26. Share-based payments

**Equity settled share based payments**

On 27 July 2005, the Group established an equity settled share option programme that entitles key management personnel and senior employees to purchase shares in the Company. On 22 October 2009, 215,000 options were granted under the scheme, 50,000 of which were exercised during 2014. A further 150,000 were granted on 1 October 2013. 120,000 share options were granted on 27 May 2014 and 205,000 share options were granted on 1 September 2014. Options granted in 2009 are exercisable at a price of €3. Options granted in 2013 are exercisable at a price of €4.70. Options granted in 2014 are exercisable at a price of €6.05 and €5.95 respectively. The scheme permits the grant of options limited to 3% of the ordinary share capital of the Company in any three year period. Options vest three years after the date of grant and no option is capable of exercise later than seven years after the date of grant. Options are granted at the discretion of the Remuneration Committee.

Additionally, a share option arrangement granted before 7 November 2002 exists. Options granted under this scheme have no expiration. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

| Grant date | Number of instruments in thousands | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Option grant on 22 October 2009 | 215 | 3 years' service | 7 years |
| Option grant on 1 October 2013 | 150 | 3 years' service | 7 years |
| Option grant on 27 May 2014 | 120 | 3 years' service | 7 years |
| Option grant on 1 September 2014 | 205 | 3 years' service | 7 years |
| **Total share options granted** | **690** | | |

## 26. Share-based payments *(continued)*

At 31 August 2016 there were 67,000 (2015: 67,000) options outstanding with a grant date pre 7 November 2002.

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2016 | Number of options 2016 | Weighted average exercise price 2015 | Number of options 2015 |
|---|---|---|---|---|
| In thousands of options | | | | |
| Outstanding at 1 January: | | | | |
| Pre 2002 options | **€0.13** | **67** | €0.13 | 67 |
| Options issued in 2009 | **€3.00** | **15** | €3.00 | 15 |
| Options issued in 2013 | **€4.70** | **150** | €4.70 | 150 |
| Options issued in 2014 | **€6.05** | **120** | €6.05 | 120 |
| Options issued in 2014 | **€5.95** | **205** | €5.95 | 205 |
| Outstanding at 31 December | **€5.97** | **557** | €5.97 | 557 |
| Exercisable at 31 December: | **€0.13** | **67** | €0.13 | 67 |
| | **€3.00** | **15** | €3.00 | 15 |

The options outstanding at 31 August 2016 have an exercise price in the range of €0.13 to €6.05 and a weighted average remaining contractual life of 3.5 years. In accordance with accounting standards, the fair value of options granted pre 2002 have not been reflected in these financial statements.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model. There were no share options granted in 2016 (2015: None).

### Cash settled share based payments

In 2015, a cash settled share performance plan was put in place that entitles key management and senior employees to a cash payment based on the following metrics. 70,000 options were granted on 1 April 2016 where one third can be exercised after one year, one third after two years and one third after three years. 70,000 options were granted on 1 April 2015 where one third can be exercised after one year, one third after two years and one third after three years. No option is capable of exercise later than seven years after the grant date. Options are granted at the discretion of the Remuneration Committee.

| **Details of awards granted under Share Performance Plan** | Share price at award | Period to earliest release date | Initial award | Net outstanding | Exercisable at period end | Fair value at period end | Fair value at prior period end |
|---|---|---|---|---|---|---|---|
| **Granted in 2016** | **€5.25** | **1** | **70,000** | **70,000** | **-** | **€0.96** | **-** |
| Granted in 2015 | €5.77 | - | 70,000 | 70,000 | 23,333 | **€0.81** | €1.24 |

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Employee expenses** | | |
| Equity settled share options granted in 2013 | **47** | 71 |
| Equity settled share options granted in 2014 | **93** | 140 |
| Share performance plan options granted in 2015 | **27** | 35 |
| Share performance plan options granted in 2016 | **23** | - |
| Total expense recognised as employee costs | **190** | 246 |

# Notes to the consolidated financial statements (continued)

## 27. Trade and other payables

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Trade payables | **5,303** | 17,009 |
| PAYE | **207** | 272 |
| PRSI | **56** | 104 |
| Accrued expenses | **3,777** | 5,186 |
| Value added tax | **7** | 8 |
| | **9,350** | 22,579 |
| ***Deferred income*** | | |
| Capital grant | **94** | 120 |
| | **9,444** | 22,699 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Company** | | |
| Trade payables due to subsidiary undertakings | **1,636** | 1,320 |
| Other trade payables | **129** | 194 |
| PAYE | **24** | 80 |
| PRSI | **18** | 19 |
| Accrued expenses | **1,380** | 1,427 |
| | **3,187** | 3,040 |
| ***Deferred income*** | | |
| Capital grant | **2** | 2 |
| | **3,189** | 3,042 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

## 28. Financial instruments

The Group's financial instruments at 31 August 2016 were classified as follows:

| | Loans and receivables at amortised cost | Available for sale financial assets at fair value | Derivatives at fair value | Liability at amortised cost |
|---|---|---|---|---|
| **Group** | **€'000** | **€'000** | **€'000** | **€'000** |
| **31 August 2016** | | | | |
| Equity investments | **-** | **1,144** | **-** | **-** |
| Loan to associates | **769** | **-** | **-** | **-** |
| Trade receivables due from related parties | **39** | **-** | **-** | **-** |
| Trade receivables | **14,516** | **-** | **-** | **-** |
| Other receivables | **365** | **-** | **-** | **-** |
| Forward currency contract – asset | **-** | **-** | **53** | **-** |
| Bank overdraft | | | | **(3,621)** |
| Loans and borrowings | **-** | **-** | **-** | **(11,300)** |
| Trade and other payables | **-** | **-** | **-** | **(9,350)** |
| | **15,689** | **1,144** | **53** | **(24,271)** |

| | Loans and receivables at amortised cost | Available for sale financial assets at fair value | Derivatives at fair value | Liability at amortised cost |
|---|---|---|---|---|
| Group | €'000 | €'000 | €'000 | €'000 |
| 31 December 2015 | | | | |
| Equity investments | - | 1,505 | - | - |
| Loan to associates | 830 | - | - | - |
| Trade receivables due from related parties | 39 | - | - | - |
| Trade receivables | 27,073 | - | - | - |
| Other receivables | 2,100 | - | - | - |
| Forward currency contract – asset | - | - | 92 | - |
| Loans and borrowings | - | - | - | (12,200) |
| Trade and other payables | - | - | - | (22,579) |
| | 30,042 | 1,505 | 92 | (34,779) |

| | Loans and receivables at amortised cost | Available for sale financial assets at fair value | Derivatives at fair value | Liability at amortised cost |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| **Company** | | | | |
| **31 August 2016** | | | | |
| Equity investments | **-** | **995** | **-** | **-** |
| Loan to associates | **805** | **-** | **-** | **-** |
| Other trade receivables due from subsidiary undertakings | **7,472** | **-** | **-** | **-** |
| Trade receivables | **255** | **-** | **-** | **-** |
| Other receivables | **57** | **-** | **-** | **-** |
| Bank overdraft | **-** | **-** | **-** | **(12,055)** |
| Loans and borrowings | **-** | **-** | **-** | **(11,300)** |
| Payables due to related parties | **-** | **-** | **-** | **(1,636)** |
| Trade and other payables | **-** | **-** | **-** | **(1,501)** |
| | **8,589** | **995** | **-** | **(26,492)** |

# Notes to the consolidated financial statements (continued)

## 28. Financial instruments *(continued)*

| | Loans and receivables at amortised cost | Available for sale financial assets at fair value | Derivatives at fair value | Liability at amortised cost |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **Company** | | | | |
| 31 December 2015 | | | | |
| Equity investments | - | 1,355 | - | - |
| Loan to associates | 803 | - | - | - |
| Other trade receivables due from subsidiary undertakings | 7,666 | - | - | - |
| Trade receivables | 692 | - | - | - |
| Other receivables | 1,857 | - | - | - |
| Bank overdraft | - | - | - | (9,423) |
| Loans and borrowings | - | - | - | (12,200) |
| Payables due to related parties | - | - | - | (1,320) |
| Trade and other payables | - | - | - | (1,720) |
| | 11,018 | 1,355 | - | (24,663) |

**Credit risk**

***Exposure to credit risk***

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group and Company's receivables from customers and available for sale investments. The carrying amount of financial assets represents the maximum credit exposure of the Group and Company.

The maximum exposure to credit risk at the reporting date was:

| | Note | Carrying amount | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **€'000** | €'000 |
| **Group** | | | |
| Loans due from associates | 16 | **769** | 830 |
| Available-for-sale equity investments | 17 | **1,144** | 1,505 |
| Trade receivables from related parties | 20 | **39** | 39 |
| Trade receivables | 20 | **14,516** | 27,073 |
| Other receivables | 20 | **365** | 2,100 |
| | | **16,833** | 31,547 |

| | Note | Carrying amount | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **€'000** | €'000 |
| **Company** | | | |
| Loans due from associates | 16 | **805** | 803 |
| Available-for-sale financial assets | 17 | **995** | 1,355 |
| Trade receivables from subsidiary undertakings | 20 | **7,472** | 7,666 |
| Trade and other receivables | 20 | **312** | 2,549 |
| | | **9,584** | 12,373 |

## 28. Financial instruments *(continued)*

The maximum exposure to credit risk for trade receivables of the Group at the reporting date by geographic region was:

| | Carrying amount | |
|---|---|---|
| | 2016 | 2015 |
| | €'000 | €'000 |
| **Group** | | |
| Domestic | **7,128** | 7,648 |
| United Kingdom | **5,601** | 7,418 |
| Other Euro-zone countries | **1,123** | 973 |
| Other regions | **664** | 11,034 |
| | **14,516** | 27,073 |

All receivables from related parties arise in Ireland and are Euro denominated. Similarly loans to associates arise in Ireland and are Euro denominated.

The maximum exposure to credit risk for trade receivables of the Company at the reporting date by geographic region was:

| | Carrying amount | |
|---|---|---|
| | 2016 | 2015 |
| | €'000 | €'000 |
| **Company** | | |
| Domestic | **255** | 692 |

All receivables from related parties arise in Ireland and are Euro denominated. Similarly loans to associates arise in Ireland and are Euro denominated.

The maximum exposure to credit risk for trade receivables of the Group at the reporting date by type of customer was:

| | Carrying amount | |
|---|---|---|
| | 2016 | 2015 |
| | €'000 | €'000 |
| **Group** | | |
| Wholesale customers | **1,770** | 15,107 |
| Retail customers | **12,746** | 11,966 |
| | **14,516** | 27,073 |

The maximum exposure to credit risk for trade receivables of the Company at the reporting date by type of customer was:

| | Carrying amount | |
|---|---|---|
| | 2016 | 2015 |
| | €'000 | €'000 |
| **Company** | | |
| Wholesale customers | **255** | 692 |

# Notes to the consolidated financial statements (continued)

## 28. Financial instruments *(continued)*

The ageing of trade receivables at the reporting date was:

| | Gross 2016 €'000 | Impairment 2016 €'000 | Gross 2015 €'000 | Impairment 2015 €'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Not past due | **5,788** | **7** | 19,312 | 5 |
| Past due < 30 days | **1,294** | **2** | 2,960 | - |
| Past due 30 – 365 days | **6,634** | **169** | 4,023 | 318 |
| Past due > 365 days | **8,263** | **7,285** | 8,074 | 6,973 |
| | **21,979** | **7,463** | 34,369 | 7,296 |

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Balance at 1 January | **7,296** | 7,514 |
| Fully impaired debts written off | **(3)** | (496) |
| Impairment | **170** | 278 |
| Balance at 31 December | **7,463** | 7,296 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables up to 30 days. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided for 0% of the balance past due less than 30 days (2015: 0%), 2.5% of the balance past due from 30 to 365 days (2015: 9%) and 88% of balances past due in excess of 365 (2015: 86%) for which security has not been received over the amount receivable.

No significant credit risk is perceived with respect to receivables due from related parties. Loans to associates are routinely reviewed for impairment. An impairment of €Nil was recognised in respect of associate loans in 2015 (2015: €Nil).

| | Gross 2016 €'000 | Impairment 2016 €'000 | Gross 2015 €'000 | Impairment 2015 €'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Not past due | **5** | **-** | 159 | - |
| Past due < 30 days | **2** | **-** | - | - |
| Past due 30 – 365 days | **46** | **-** | 48 | - |
| Past due > 365 days | **5,614** | **5,412** | 5,727 | 5,242 |
| | **5,667** | **5,412** | 5,934 | 5,242 |

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Balance at 1 January and 31 December | **5,242** | 5,552 |
| Fully impaired debts written off | **-** | (310) |
| Impairment | **170** | - |
| Balance at 31 August and 31 December | **5,412** | 5,242 |

## 28. Financial instruments *(continued)*

Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables up to 30 days. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided of 0% (2015: 0%) of the balance past due less than 30 days, 0% of the balance past due from 30 to 365 days (2015: 0%) and 96% of balances past due in excess of 365 days (2015: 92%) for which security has not been received over the amount receivable. No significant credit risk is perceived with respect to receivables due from related parties. Loans to associates are routinely reviewed for impairment. An impairment of €70,000 was recognised in respect of associate loans in 2016 (2015:€Nil).

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **31 August 2016** | | | | | | | |
| **Group** | | | | | | | |
| Forward currency contract – asset | **(53)** | **53** | **53** | **-** | **-** | **-** | **-** |
| Secured bank loans | **11,300** | **(11,439)** | **(11,439)** | **-** | **-** | **-** | **-** |
| Finance lease liabilities | **20** | **(23)** | **(10)** | **(10)** | **(3)** | **-** | **-** |
| Bank overdraft | **3,621** | **(3,621)** | **(3,621)** | **-** | **-** | **-** | **-** |
| Trade and other payables | **9,350** | **(9,350)** | **(9,350)** | **-** | **-** | **-** | **-** |
| | **24,238** | **(24,380)** | **(24,367)** | **(10)** | **(3)** | **-** | **-** |

| | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| 31 December 2015 | | | | | | | |
| **Group** | | | | | | | |
| Forward currency contract – asset | (92) | 92 | 92 | - | - | - | - |
| Secured bank loans | 12,200 | (12,502) | (758) | (744) | (11,000) | - | - |
| Finance lease liabilities | 86 | (93) | (37) | (35) | (21) | - | - |
| Trade and other payables | 22,579 | (22,579) | (22,579) | - | - | - | - |
| | 34,773 | (35,082) | (23,282) | (779) | (11,021) | - | - |

| | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **31 August 2016** | | | | | | | |
| **Company** | | | | | | | |
| Secured bank loans | **11,300** | **(11,439)** | **(11,439)** | **-** | **-** | **-** | **-** |
| Payables due to subsidiary undertakings | **1,636** | **(1,636)** | **(1,636)** | **-** | **-** | **-** | **-** |
| Trade and other payables | **1,720** | **(1,720)** | **(1,720)** | **-** | **-** | **-** | **-** |
| Bank overdraft | **12,055** | **(12,055)** | **(12,055)** | **-** | **-** | **-** | **-** |
| | **26,711** | **(26,850)** | **(26,850)** | **-** | **-** | **-** | **-** |

# Notes to the consolidated financial statements (continued)

## 28. Financial instruments *(continued)*

| | Carrying amount €'000 | Contractual cash flows €'000 | 6 mths or less €'000 | 6 – 12 mths €'000 | 1 – 2 years €'000 | 2 – 5 years €'000 | More than 5 years €'000 |
|---|---|---|---|---|---|---|---|
| 31 December 2015 | | | | | | | |
| **Company** | | | | | | | |
| Secured bank loans | 12,200 | (12,502) | (758) | (744) | (11,000) | - | - |
| Payables due to subsidiary undertakings | 1,320 | (1,320) | (1,320) | - | - | - | - |
| Trade and other payables | 1,720 | (1,720) | (1,720) | - | - | - | - |
| Bank overdraft | 9,423 | (9,423) | (9,423) | - | - | - | - |
| | 24,663 | (24,965) | (13,221) | (744) | (11,000) | - | - |

**Currency risk**

***Exposure to currency risk***

The Group's exposure to foreign currency risk on financial instruments that impact profit or loss at the balance sheet date was as follows:

| | **2016 €'000** | 2015 €'000 |
|---|---|---|
| Trade receivables | **5,618** | 13,504 |
| Bank balance | **1,351** | 5,800 |
| Forward currency contract – asset | **53** | 92 |
| Trade payables | **(2,318)** | (6,882) |
| Gross balance sheet exposure | **4,704** | 12,514 |

The following significant exchange rates applied during the period:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| GBP to Euro | **1.28** | 1.38 | **1.18** | 1.36 |

**Sensitivity analysis**

A 10 percent strengthening of the euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

| | **Equity €'000** | **Profit or loss €'000** |
|---|---|---|
| GBP | | |
| **31 August 2016** | **(732)** | **(235)** |
| 31 December 2015 | (1,011) | 200 |

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## 28. Financial instruments *(continued)*

### Interest rate risk

***Profile***

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was solely variable.

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| | €'000 | €'000 | €'000 | €'000 |
| **31 August 2016** | | | | |
| Cash flow sensitivity (net) | **(79)** | **79** | **(79)** | **79** |
| **31 December 2015** | | | | |
| Cash flow sensitivity (net) | (121) | 121 | (121) | 121 |

### Equity Risk

The value of the Group and Company's available-for-sale financial assets are exposed to fluctuations in the Irish equity market. A 5% strengthening of equity prices at 31 August 2016 would have increased equity and profit or loss by €57,200 (2015: €58,258). A 5% weakening of equity prices would have had an equal but opposite effect.

### Derivative financial instruments

The fair values of foreign exchange contracts are analysed by year of maturity and by accounting designation as follows:

| | 2016 | 2015 |
|---|---|---|
| | €'000 | €'000 |
| Forward currency contract – within one year – current asset | **53** | 92 |

The Group's foreign exchange hedge risk arises due to future cashflows from movements in foreign exchange rates and affect the profit and loss over the period of maturity.

The fair value gain arising on forward currency contract reflected in the consolidated statement of profit or loss and comprehensive income in 2015 was €53,000 (2015: €92,000).

# Notes to the consolidated financial statements (continued)

## 28. Financial instruments *(continued)*

**Fair values**

***Fair values versus carrying amounts***

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | 31 August 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | €'000 | €'000 | €'000 | €'000 |
| Available-for-sale financial assets | **1,144** | **1,144** | 1,505 | 1,505 |
| Loans and receivables | **14,920** | **14,920** | 30,042 | 30,042 |
| Secured bank loans | **(11,300)** | **(11,300)** | (12,200) | (12,200) |
| Finance lease liabilities | **(20)** | **(20)** | (86) | (86) |
| Trade and other payables | **(9,350)** | **(9,350)** | (22,579) | (22,579) |
| Forward currency contract – asset | **53** | **53** | 92 | 92 |
| Bank overdraft | **(3,621)** | **(3,621)** | - | - |
| | **(8,174)** | **(8,174)** | (3,226) | (3,226) |

The carrying amounts of loans and receivables, trade and other payables are deemed to be a reasonable approximation of fair value. The basis for determining fair values is disclosed in note 4. The fair value of secured loans and finance lease liabilities has been calculated using discounted cash flows. The Group has availed of the exemption in IFRS 7 'Financial instruments: Disclosure' in respect of additional disclosures where fair value closely approximates the amortised cost carrying value.

**Fair Value Hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 August 2016 and 31 December 2015, the Group recognised and measured the following financial instruments at fair value:

| | 2016 | 2016 | 2016 | 2016 |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | €'000 | €'000 | €'000 | €'000 |
| Available-for-sale financial assets – equity investments | **1,144** | **149** | **-** | **995** |
| Forward currency contract – asset | **53** | **-** | **53** | **-** |

| | 2015 | 2015 | 2015 | 2015 |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | €'000 | €'000 | €'000 | €'000 |
| Available-for-sale financial assets – equity investments | 1,505 | 150 | - | 1,355 |
| Forward currency contract – asset | 92 | - | 92 | - |

## 28. Financial instruments *(continued)*

**Valuation techniques and significant unobservable inputs**

***Available for sale investments***

The fair value of unquoted shares has been based upon recent market transactions.

***Forward exchange contract***

Fair value is determined based on a market comparison technique obtained through a broker quote. Similar contracts are traded in an active market and the quote reflects such transactions.

**Additional disclosures for level 3 fair value measurements**

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Derivatives – option granted over investment in associate** | | |
| At beginning of period | - | 3,925 |
| Exercised in period | - | (3,925) |
| At the end of the period | - | - |
| **Unquoted equity investments** | | |
| At beginning of period | **1,355** | 991 |
| Disposal | **(365)** | - |
| Gain recognised in other comprehensive income | **5** | 364 |
| **At the end of the period** | **995** | 1,355 |

**Interest rates used for determining fair value**

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

| | 2016 | 2015 |
|---|---|---|
| Derivatives | **3.1%** | 3.1% |
| Loans and borrowings | **2.5%** | 2.5% |
| Leases | **6.0%** | 6.0% |

## 29. Operating leases

**Leases as lessor**

The future minimum lease payments receivable under non-cancellable leases are as follows:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Less than one year | **358** | 463 |
| Between one and five years | **661** | 832 |
| | **1,019** | 1,295 |

During the period ended 31 August 2016 €527,000 was recognised as rental income in the income statement (2015: €834,000). Expense charges against this income was as follows: maintenance costs €34,000 (2015: €53,000), management expenses €234,000 (2015: €289,000) and depreciation €15,000 (2015: €23,000).

## 30. Capital and other commitments

At the period end there were capital commitments of €28,000 authorised by the Directors and not provided for in the financial statements (2015: €211,000). The Group currently has financial commitments in respect of the planting of seed potatoes for the 2016/17 season totalling 1,988 hectares (2015: 1,988 hectares).

# Notes to the consolidated financial statements (continued)

## 31. Contingencies

Capital grants up to a maximum of €2,000 (2015: €2,000) could become repayable in certain circumstances as set out in the agreements.

## 32. Asset held for sale

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| **Group** | | |
| Transfer from investment in associates (note 16) | **23,835** | - |
| | **23,835** | - |

As outlined in note 16, as a result of the Court of Appeal decision to uphold the High Court Remedy Order, the Group's share in Monaghan Middlebrook Mushrooms was transferred to an asset held for sale as at 1 January 2016, as its value will be recovered through a sales transaction.

## 33. Related parties

**Parent and ultimate controlling party**

The Parent and ultimate controlling party of the Group is Donegal Investment Group plc.

**Transactions with key management personnel**

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive officers, and contributes to a post-employment defined contribution pension plan on their behalf.

Executive officers also participate in the Group's share option programme see note 26.

Key management personnel compensation comprised:

| | 2016 €'000 | 2015 €'000 |
|---|---|---|
| Short-term employee benefits | **298** | 420 |
| Post-employment benefits | **53** | 75 |
| Share-based payments | **135** | 166 |
| | **486** | 661 |

**Key management personnel and director transactions**

Directors of the Company control 5.15% (2015: 5.09%) of the voting shares of the Company.

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

In the ordinary course of their business as farmers, Directors have traded on standard commercial terms with the Group. Aggregate purchases from, and sales to, these Directors amounted to €Nil (2015: €Nil) and €192,489 (2015: €336,042), respectively. Directors receive a dividend per qualifying share held at dividend date.

**Related party transactions – Group**

| | Transaction value | | Balance outstanding | |
|---|---|---|---|---|
| | 2016 €'000 | 2015 €'000 | 2016 €'000 | 2015 €'000 |
| **Sale of goods and services** | | | | |
| Sales by Group to Directors | **192** | 336 | **39** | 39 |

## 33. Related parties *(continued)*

**Other related party transactions – Company**

| | Transaction value | | Balance outstanding as at | |
|---|---|---|---|---|
| | **2016** | 2015 | **31 August 2016** | 31 December 2015 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Sale of goods and services** | | | | |
| By parent to subsidiaries | **1,226** | 1,769 | **1,635** | 1,320 |
| To parent from subsidiaries | **-** | - | **7,472** | 7,666 |

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date. None of the balances are secured.

## 34. Group entities

| Subsidiaries | Country of incorporation | Ownership interest | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **%** | % |
| **Robert Smyth & Sons (Strabane & Donegal) Limited**<br>Registered office: Millsessiagh, Ballindrait, Lifford, Co Donegal | Ireland | **100** | 100 |
| **Zopitar Limited**<br>Registered office: Ballyraine, Letterkenny, Co Donegal | Ireland | **83** | 83 |
| **Milburn Dairy Limited**<br>Registered office: Ballyraine, Letterkenny, Co Donegal | Ireland | **100** | 100 |
| **IPM Potato Group Limited**<br>Registered office: 412 Q House, Furze Rd, Sandyford Industrial Estate, Dublin 18 | Ireland | **100** | 100 |
| **Donegal Potatoes Limited**<br>Registered office: Colehill, Newtoncunningham, Co Donegal | Ireland | **100** | 100 |
| **Nomadic Dairy Limited**<br>Registered office: Crossroads, Killygordon, Co Donegal | Ireland | **80** | 80 |
| **Biogreen Foods Limited**<br>Registered office: 65 Cavendish Street, London, W1G 7LS | UK | **80** | 80 |
| **McCorkell Holdings Limited**<br>Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL | Northern Ireland | **75** | 75 |
| **Burke Shipping Services Limited**<br>Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL | Northern Ireland | **75** | 75 |
| **Maybrook Dairy Limited**<br>Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL | Northern Ireland | **100** | 100 |
| **Euro-Agri Limited**<br>Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL | Northern Ireland | **100** | 100 |
| **Estuary Trading Limited**<br>Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL | Northern Ireland | **100** | 100 |
| **IPM Holland B.V.**<br>Registered office: Marssumerdyk 1, 9033 WD Deinum, The Netherlands | Holland | **100** | 100 |
| **MPCO Limited**<br>Registered office: Ballyraine, Letterkenny, Co Donegal | Ireland | **100** | 100 |
| **High Meadow Patents Limited**<br>Registered office: Crossroads, Killygordon, Co Donegal | Ireland | **100** | 100 |
| **An Grianan Grain Company Limited**<br>Registered office: Ballyraine, Letterkenny, Co Donegal | Ireland | **100** | 100 |
| **Donra Dairies**<br>Registered office: Ballyraine, Letterkenny, Co Donegal | Ireland | **100** | 100 |
| **AJ Allan (Potato Merchants) Limited**<br>Registered office: East Mill, Brechin, Angus, UK, DD9 7HJ | UK | **100** | 100 |

# Notes to the consolidated financial statements (continued)

## 34. Group entities *(continued)*

| Subsidiaries | Country of incorporation | Ownership interest 2016 % | 2015 % |
|---|---|---|---|
| **Chef in a Box Limited**<br>Registered office: 762A/763A Henley Rd, Slough Trading Estate, Slough, Berks, SL1 4JW | UK | **100** | 100 |
| **AJ Allan (Brechin) Limited**<br>Registered office: East Mill, Brechin, Angus, UK, DD9 7HJ | UK | **100** | 100 |
| **Solanex Limited**<br>Registered office: Rua Samuel Hahnemann nº17, Jardim Santo Andre, São João da Boa-SP, CEP 13872-029, Brazil | Brazil | **85** | 85 |
| **IPM Brasil**<br>Registered office: Avenida Dr José Bonifácio Coutinho Nogueira no. 214, Sala 232, Jardim Madalena CEP 13091-611, Campinas-SP, Brazil. | Brazil | **100** | 100 |
| **IPM France**<br>Registered office: 1 rue de Bellonne 62490 Noyelles Sous Bellonne, France | France | **100** | 100 |
| **IPM Portugal**<br>Batatas de Semente e Produtos Agrícolas, Unipessoal Lda Rua Domingos Sequeira no. 27-3rd J,1350-119 Lisbon Portugal | Portugal | **100** | 100 |
| **Associated undertakings:** | | | |
| **Monaghan Middlebrook Mushrooms**<br>Registered office: Tyholland, Monaghan, Co Monaghan | Ireland | **30** | 30 |
| **North Western Livestock Holdings Limited**<br>Registered office: Tubbercurry, Co Sligo | Ireland | **22.4** | 22.4 |
| **Leapgrange Limited**<br>Registered office: The Mall, Ballyshannon, Co Donegal | Ireland | **42.7** | 42.7 |

The following subsidiaries will avail of the filing exemption available under Section 357 of the Companies Act 2014, whereby they will annex the financial statements of Donegal Investment Group plc to their annual returns: Robert Smyth & Sons (Strabane & Donegal) Limited, Milburn Dairy Limited, IPM Potato Group Limited, MPCO Limited, High Meadow Patents Limited, Donra Dairies Limited, Nomadic Dairy Limited and An Grianan Grain Company Limited.

## 35. Post balance sheet events

The group purchased 3,969 ordinary shares of 13 cent held as treasury shares subsequent to the year end, for a total cost of €22,561. Certain amounts of the Group's banking facilities, including the €11,000,000 secured bank loan which fell due for repayment in January 2017, have been refinanced post period end. There have been no other significant events subsequent to the period end, which would require adjustment to, or disclosure in, the financial statements.

## 36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Directors on 22 March 2017.

Annex to Financial Statements

# Unaudited Preliminary Announcement of Results

for the 8 month period ended
31 August 2016

**28 November 2016**

**Donegal Investment Group plc ('DIG') ('Group') reports its results for the 8 months ended 31 August 2016. The first 8 months in 2016 saw a significant improvement in the performance of our seed potato business as well as continuing progress with our speciality dairy business.**

The Group has changed its year end from 31 December to 31 August. This will allow the Group going forward to have greater visibility on the seasonal performance of its produce and animal feeds business in advance of each new year ending in August.

Group revenue increased by 3.3% to €47.5m driven mainly by growth in our produce division.

Adjusted operating profits increased by €1.3m for the period to €1.3m as a result of improved performance in all businesses.

Speciality dairy, which trades under the NOMADIC brand, continued to grow to plan in both UK and Irish markets.

Smyths, our animal feeds business, again had a satisfactory 2016 with a small reduction in volumes sold being offset by operational efficiencies.

Our Food-Agri & Property division delivered a segmental result of €2.0m, which is €0.7m ahead of like for like performance in 2015 before exceptional costs and property devaluations.

Performance in our produce seed potato business was considerably ahead of the prior period in 2015 with the segmental result of a loss of €0.5m, a significant improvement of €1m over the same period last year. It should be noted the majority of sales generated by this business occur in the months October to December of any year and have a material impact on the bottom line performance of this business in a 12 month period.

As a result of the Court of Appeal's decision to uphold the buyout of Donegal's Shareholding in Monaghan Mushrooms by the majority shareholder in that business we have transferred our investment to an asset held for sale from the 1st January 2016 and will no longer take a share of profits into our results.

Exceptional items (a net loss of €2.5m before tax) are substantially legal costs relating to Donegal's Shareholding in Monaghan Mushrooms. Following on from the Court of Appeal's decision that that no order for costs should apply to the modules connected to the Oppression Action, a provision of €1.8m before tax has been made against a receivable of the same amount.

There were no substantial disposals of non-core assets during the period.

Adjusted EPS of 10.9c down by 4.1c on 2015.

Net debt increased by €0.6m to €14.9m at the 31st August 2016.

Since 31st December 2015 1.9% of the ordinary share capital of the Company was re-purchased as treasury shares at a cost of €1.1m.

Interim dividend of 5.0 cent per share.

Net asset value per share decreased by €0.25 to €5.76.

During the course of the coming year, the Group will continue to review options to further release capital from non-core businesses and assets and has recently marketed the Grianan Estate farm.

# Summary Financial Highlights – unaudited

| Continuing operations – pre-exceptional | | 8 months ended 31 August 2016 | 8 months ended 31 August 2015 | Change |
|---|---|---|---|---|
| Revenue – continuing operations | €'000 | **47,501** | 45,996 | +€1.5m |
| Adjusted operating profit | €'000 | **1,340** | 59 | +€1.3m |
| (Loss)/profit before tax – continuing operations | €'000 | **(545)** | 2,075 | -€2.6m |
| Operating cash flow before interest & tax | €'000 | **712** | 1,417 | -€0.7m |
| Adjusted earnings per share* | Cent | **10.9** | 15.0 | -4.1c |
| Basic (loss)/earnings per share – continuing operations | Cent | **(14.7)** | 23.5 | -38.2c |
| Net debt | €'000 | **14,921** | 14,350 | +€0.6m |
| Dividend per share | Cent | **0.05** | | - |
| Investment property carrying value | €'000 | **19,021** | 18,304 | +€0.7m |
| Net asset value per share** | € | **5.76** | 6.01 | -€0.25 |

* Adjusted earnings per share before the impact of change in fair value of investment properties in group & associates and the related deferred tax
** Net assets are total equity attributable to equity holders of the Company

## Enquiries:

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Drury

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# Chairman's Statement

During the first eight months of 2016 the Group experienced an improved performance in all of its businesses.

Our produce seed potato business delivered a considerably improved performance in that period despite the impact of difficult trading conditions in Middle Eastern markets. The corrective actions, outlined in our Stock Exchange Release dated 29 April 2016, have been implemented and we believe they will continue to deliver an improved performance in this business for the coming season.

Our animal feeds business again experienced a satisfactory performance in 2016 with marginally reduced volumes being offset by ongoing operational efficiencies.

The continued development and scaling of our speciality dairy business based in Killygordon, Co. Donegal has contributed to a significant improvement in performance.

Following the Court of Appeals decision to uphold the Remedy Order requiring the majority shareholder in Monaghan Middlebrook Mushrooms to purchase our shareholding in this company, this investment is now held as an asset for sale, as its value is expected to be recovered through a sale transaction, and therefore will no longer provide a contribution to our share of profits from associates.

Following on from the appointment of an international real estate firm to consider the future ownership of the Grianan Estate farm, the Board has marketed the Grianan Estate farm, with the process ongoing.

Overall, Group revenue increased by 3.3% to €47.5m and adjusted operating profit increased from €0.1m to €1.3m. This resulted in adjusted earnings per share of 10.9c, a decrease of 4.1c on 2015. The Group's balance sheet remains strong with shareholder funds of €57.0m.

The Group has and will continue to focus on its key strategic assets of produce seed potato and speciality dairy and its interest in Monaghan Middlebrook Mushrooms. As referred to in our recent AGM statement the Board is actively considering, subject to the requirements of the Group's businesses, a return of capital to its shareholders.

## Dividend

An interim dividend of 5.0c per share will be paid on 19 December 2016 to shareholders on the register on 9 December 2016.

## AGM

The Group will announce in due course the date of its next AGM.

**Geoffrey Vance**
*Chairman*

# Managing Director's Review

## Produce Division

Our Produce division comprises the seed potato business IPM Potato Group ('IPM'), AJ Allan in Scotland and An Grianan Grain in Ireland. IPM, the largest business within our Produce division has 30 proprietary potato varieties including names such as Rooster, Burren, Banba, Slaney, Nectar and Electra which it produces and exports to over 40 countries world-wide. Key markets include North Africa, the Middle East, the UK and Ireland. Seed production takes place in dedicated growing areas including Scotland, England, Ireland, France, Holland and Brazil. Both production and sales only take place in territories which recognise and embrace variety copyright regulation. The seed potato business enters into seasonal purchase agreements which expose the business to the risk of losses arising from any inability to sell on these committed quantities and/or achieve the committed price. Whilst our seed potato business is exposed to a number of operational risks typical of a seed production business, it has over time generated strong operating profit margins, low capital expenditure requirements and yielded strong returns on capital. It will be the key strategic focus for the Group going forward.

During the first 8 months of 2016 turnover increased by €1.1m to €13.7m, delivering a segmental loss of €0.5m, a significant improvement on the €1.5m loss experienced in the same period in 2015. It should be noted the majority of sales generated by this business occur in the months of October to December of any year and have a material impact on the bottom line performance of this business in a 12 month period.

Seed potato markets were firm in the first half of the year with the impact of non-performing markets in the Middle East being offset by improved performance in European markets such as the UK. While the harvest of seed potato in several European countries has been negatively impacted by weather conditions, the diverse nature of IPM's growing platform has resulted in normal levels of production of seed being achieved.

As advised previously we are investing in new markets and new varieties and this work continues. We are making good progress in the emerging markets of South America and Africa in developing and securing markets for our seed potatoes and remain very positive about the future potential for our business in these geographical areas. We are also gaining market share in Europe with our new varieties for the fresh segment. Developing seed potato for the processing sector has been a key focus for the business and we are pleased to announce that we have successfully launched new varieties for the processing industry which we are confident will give IPM a greater presence in this sector.

The Board remains confident in the strong growth potential of the Group's core seed potato business underpinned by increased demand for food from global population growth, the westernisation of diets in emerging markets and issues around water availability. IPM's proprietary varieties also have the potential to produce more carbohydrate per unit of water than most of the global carbohydrate staples. The Board believes that all of these factors will enable the Group to become a leading global player in seed potato production. The corrective actions referred to in our Stock Exchange Release dated 29 April 2016 have been successfully implemented and should allow this business to continue to deliver an improved performance.

## Food-Agri & Property Division

Overall, revenues in the Food-Agri & Property division increased by €0.4m to €33.8m. This resulted in a segmental result before exceptional and property devaluations of €2.0m, an increase of €0.7m on the prior period performance.

Our speciality dairy business based in Killygordon, Co. Donegal produces a range of ethnic and on-the-go dairy based yogurt products, trading under our NOMADIC brand allows us to maximise the sales and operational synergies in these niche categories.

Nomadic continued to deliver double digit growth over the eight months to 31 August, particularly in their adult yogurt drinks ranges. Having completed the final stage of our three year investment programme in Killygordon, we have just launched some exciting new innovations - Chai yogurt drinks in cups and Bircher Muesli.

Smyths again had a satisfactory performance in 2016 where volumes were down marginally versus 2015 as a result of the challenges being faced by our customers. This business has had a satisfactory start to the new season, nevertheless as stated previously our customers remain challenged with the volatility in milk and beef prices.

As per IFRS reporting requirements all investments including food-agri related property are revalued each period. As outlined previously the Group has decided that it will increase the pro-active management of its property portfolio going forward with the aim of generating capital for investment in its strategic focus areas and improving Group returns on capital employed.

## Associates

Following the Court of Appeals decision to uphold the Remedy Order requiring the majority shareholder in Monaghan Middlebrook Mushrooms to purchase our shareholding in this company, this investment is now held as an asset for sale, as its value is expected to be recovered through a sale transaction, and therefore will no longer provide a contribution to our share of profits from associates.

## Finance and Balance Sheet

The Group has committed bank facilities of €23.4m. Net debt at the period end was €14.9m (31 August 2015: €14.4m).

## Substantial Shareholdings

The issued share capital of Donegal Investment Group plc at 31 August 2016 consists of 10,285,590 ordinary shares. Each share has a nominal value of €0.13. All shares have equal voting and dividend rights. The current shareholdings in excess of 3% of the issued share capital of the Company are as follows:

- HSBC Global Custody Nominee (UK) Limited – Argos Investment Managers S.A – 952,000 (9.26%)
- Goodbody Stockbroker Nominees Limited – 921,693 (8.96%)
- Aurum Nominees Limited – Danbywiske – 495,000 (4.81%)
- Aurum Nominees Limited – Donegal Investment Group plc – 489,664 (4.76%)

## Outlook

Currently all our businesses are on plan for the first quarter of our new financial year September 2016 to August 2017. We remain confident of delivering a satisfactory performance in our produce seed potato business but it is too early in the season to give any further guidance. Our Food-Agri businesses while continuing to perform strongly will be challenged by trading conditions post Brexit and the resulting impact on sterling.

During 2016/2017 year, the Group will continue to review options to release capital from its non-core businesses and assets. As referred to in our recent AGM statement the Board is actively considering, subject to the requirements of the Group's businesses, a return of capital to its shareholders.

The Group continues to concentrate financial and management resources on the strategic areas of produce seed potato, speciality dairy and the Group's interest in Monaghan Middlebrook Mushrooms.

**Ian Ireland**
*Managing Director*

# General information and accounting policies

At the date of issue of this Announcement, the Group's statutory accounts for the period ended 31 August 2016, and therefore the results shown in the Announcement, are unaudited. In the opinion of the directors, the Announcement includes all adjustments necessary for a fair presentation of the results for the periods presented.

The financial information set out in this Announcement does not constitute the Group or company's statutory accounts for the period ended 31 December 2015. The financial information for 2015 is derived from the statutory Group and company accounts for 2015 which have been delivered to the Companies Registration Office as an annex to the company's Annual Return for that year. The auditors have reported on the 2015 accounts; their report was (i) unqualified and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report. The Group and company statutory accounts for 2016 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Companies Registration Office in due course.

The financial information set out in this document does not constitute full statutory financial statements for the period ended 31 August 2016 but is derived from same. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), applicable Irish law and Listing Rules of the Irish Stock Exchange. The Group financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial asset investments and financial liabilities (including derivative financial instruments and biological assets), which are held at fair value. The Group's accounting policies will be included in the Annual Report & Accounts to be published in January 2017.

# Condensed consolidated statement of profit or loss and comprehensive income

for the period ended 31 August 2016

| | | **8 months ended 31 August 2016** | | | 8 months ended 31 August 2015 | | | 12 months ended 31 December 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Pre-Exceptional €'000** | **Note 12 Exceptional €'000** | **Total €'000** | Pre-Exceptional €'000 | Note 12 Exceptional €'000 | Total €'000 | Pre-Exceptional €'000 | Note 12 Exceptional €'000 | Total €'000 |
| **Continuing operations** | | | | | | | | | | |
| Revenue | 5 | **47,501** | **-** | **47,501** | 45,996 | - | 45,996 | 82,883 | - | 82,883 |
| Cost of sales | | **(36,109)** | **-** | **(36,109)** | (35,473) | - | (35,473) | (62,508) | - | (62,508) |
| **Gross profit** | | **11,392** | **-** | **11,392** | 10,523 | - | 10,523 | 20,375 | - | 20,375 |
| Other income | | **546** | **-** | **546** | 520 | - | 520 | 512 | - | 512 |
| Other expenses | | **(657)** | **-** | **(657)** | (25) | - | (25) | (25) | - | (25) |
| Distribution expenses | | **(3,707)** | **-** | **(3,707)** | (3,906) | - | (3,906) | (9,590) | - | (9,590) |
| Administrative expenses | | **(6,809)** | **(2,545)** | **(9,354)** | (7,212) | 1,517 | (5,695) | (10,274) | 1,284 | (8,990) |
| **(Loss)/profit from operating activities** | | **765** | **(2,545)** | **(1,780)** | (100) | 1,517 | 1,417 | 998 | 1,284 | 2,282 |
| Finance income | | **61** | **-** | **61** | 1,135 | - | 1,135 | 666 | - | 666 |
| Finance expenses | | **(1,371)** | | **(1,371)** | (790) | - | (790) | (654) | - | (654) |
| **Net finance (expense)/income** | | **(1,310)** | **-** | **(1,310)** | 345 | - | 345 | 12 | - | 12 |
| Share of profit/(loss) of associates (net of tax) | | **-** | **-** | **-** | 1,830 | (442) | 1,388 | 2,745 | (663) | 2,082 |
| **(Loss)/profit before income tax** | | **(545)** | **(2,545)** | **(3,090)** | 2,075 | 1,075 | 3,150 | 3,755 | 621 | 4,376 |
| Income tax credit/(charge) | | **1,262** | **450** | **1,712** | (203) | (390) | (593) | (265) | (390) | (655) |
| **(Loss)/profit for the period** | 5 | **717** | **(2,095)** | **(1,378)** | 1,872 | 685 | 2,557 | 3,490 | 231 | 3,721 |

# Condensed consolidated statement of profit or loss and comprehensive income
for the period ended 31 August 2016

| | 8 months ended 31 August 2016 Total €'000 | 8 months ended 31 August 2015 Total €'000 | 12 months ended 31 December 2015 Total €'000 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified to profit or loss** | | | |
| Foreign currency translation differences for foreign operations | **(528)** | 132 | 36 |
| Currency translation adjustment in associate undertaking | **-** | 226 | 339 |
| Revaluation of financial instrument in associate undertaking | **-** | (173) | (259) |
| Recycle of currency translation in associate undertaking on exercise of option over financial asset | **-** | (46) | (46) |
| Recycle of change in fair value of financial instrument in associate undertaking on exercise of option over financial asset | **-** | 274 | 274 |
| Revaluation of property on reclassification to investment property | **-** | - | 31 |
| Tax on revaluation of property on reclassification to investment property | **-** | - | (10) |
| Recycle of change in fair value of available for sale financial asset | **(264)** | - | - |
| Tax on recycle of change in fair value of available for sale financial asset | **88** | - | - |
| Revaluation of available for sale financial assets | **5** | 437 | 364 |
| Tax on revaluation of available for sale financial assets | **(2)** | (168) | (120) |
| **Total comprehensive income for the period** | **(2,079)** | 3,239 | 4,330 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | **(1,460)** | 2,391 | 3,617 |
| Non-controlling interest | **82** | 166 | 104 |
| | **(1,378)** | 2,557 | 3,721 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | **(2,014)** | 3,078 | 4,231 |
| Non-controlling interest | **(65)** | 161 | 99 |
| | **(2,079)** | 3,239 | 4,330 |
| **(Loss)/earnings per share** | | | |
| **Basic (loss)/earnings per share (euro cent)** | | | |
| Continuing | **(14.7)** | 23.5 | 35.7 |
| **Diluted (loss)/earnings per share (euro cent)** | | | |
| Continuing | **(14.7)** | 23.2 | 35.4 |

# Condensed consolidated statement of financial position

As at 31 August 2016

| | Note | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Property, plant and equipment | 8 | **12,696** | 14,900 | 14,127 |
| Investment property | 9 | **19,021** | 18,304 | 18,634 |
| Goodwill | | **3,633** | 3,633 | 3,633 |
| Intangible assets | | **399** | 483 | 458 |
| Investment in associates | 10 | **1,008** | 24,184 | 24,904 |
| Other investments | | **1,144** | 1,651 | 1,505 |
| Prepayment | | **188** | 189 | 189 |
| **Total non-current assets** | | **38,089** | 63,344 | 63,450 |
| Inventories | | **4,419** | 4,144 | 4,822 |
| Trade and other receivables | | **17,800** | 21,821 | 31,997 |
| Current tax | | **43** | 233 | 137 |
| Cash at bank | | **-** | - | 82 |
| Current financial instrument | | **53** | - | 92 |
| Total current assets before asset held for sale | | **22,315** | 26,198 | 37,130 |
| Asset held for sale | 11 | **23,835** | - | - |
| **Total current assets** | | **46,150** | 26,198 | 37,130 |
| **Total assets** | | **84,239** | 89,542 | 100,580 |
| ***Equity*** | | | | |
| Share capital | | **1,337** | 1,337 | 1,337 |
| Share premium | | **2,975** | 2,975 | 2,975 |
| Other reserves | | **(2,430)** | (187) | (917) |
| Retained earnings | | **54,951** | 56,768 | 57,293 |
| **Total equity attributable to equity holders of the Company** | | **56,833** | 60,893 | 60,688 |
| **Non-controlling interest** | | **1,224** | 1,443 | 1,347 |
| **Total equity** | | **58,057** | 62,336 | 62,035 |
| ***Liabilities*** | | | | |
| Loans and borrowings | | **2** | 11,323 | 11,018 |
| Deferred income | | **94** | 120 | 120 |
| Deferred tax liabilities | | **1,797** | 3,697 | 3,560 |
| **Total non-current liabilities** | | **1,893** | 15,140 | 14,698 |
| Trade and other payables | | **9,350** | 8,937 | 22,579 |
| Bank overdraft | | **3,621** | 1,850 | - |
| Loans and borrowings | | **11,318** | 1,279 | 1,268 |
| **Total current liabilities** | | **24,289** | 12,066 | 23,847 |
| **Total liabilities** | | **26,182** | 27,206 | 38,545 |
| **Total equity and liabilities** | | **84,239** | 89,542 | 100,580 |

# Condensed consolidated statement of changes in equity
for the period ended 31 August 2016

| | Share capital €'000 | Share premium €'000 | Translation reserve €'000 | Reserve for own shares €'000 | Revaluation reserves €'000 | Fair value reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 1,337 | 2,975 | (2,498) | (1,640) | 4,190 | (1,338) | 369 | 57,293 | 60,688 | 1,347 | 62,035 |
| **Total comprehensive income for the period** | | | | | | | | | | | |
| Loss for the period | - | - | - | - | - | - | - | (1,460) | (1,460) | 82 | (1,378) |
| **Other comprehensive income** | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | (381) | - | - | - | - | - | (381) | (147) | (528) |
| Recycle of change in fair value of available for sale financial assets, net of tax | - | - | - | - | - | (176) | - | - | (176) | - | (176) |
| Net change in fair value of available for sale financial assets, net of tax | - | - | - | - | - | 3 | - | - | 3 | - | 3 |
| **Other comprehensive income** | - | - | (381) | - | - | (173) | - | - | (554) | (147) | (701) |
| **Total comprehensive income for the period** | - | - | (381) | - | - | (173) | - | (1,460) | (2,014) | (65) | (2,079) |
| **Transactions with owners recorded directly in equity** | | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (882) | (882) | (58) | (940) |
| Acquisition of treasury shares | - | - | - | (1,099) | - | - | - | - | (1,099) | - | (1,099) |
| Shared based payments | - | - | - | - | - | - | 140 | - | 140 | - | 140 |
| **Total contributions by and distributions to owners** | - | - | - | (1,099) | - | - | 140 | (882) | (1,841) | (58) | (1,899) |
| **Balance at 31 August 2016** | **1,337** | **2,975** | **(2,879)** | **(2,739)** | **4,190** | **(1,511)** | **509** | **54,951** | **56,833** | **1,224** | **58,057** |

# Condensed consolidated statement of changes in equity

for the period ended 31 August 2015

| | Share capital €'000 | Share premium €'000 | Translation reserve €'000 | Reserve for own shares | Revaluation reserves €'000 | Fair value reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 1,337 | 2,975 | (2,832) | (351) | 4,169 | (1,597) | 158 | 55,287 | 59,146 | 1,335 | 60,481 |
| **Total comprehensive income for the period** | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 2,391 | 2,391 | 166 | 2,557 |
| **Other comprehensive income** | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | 137 | - | - | - | - | - | 137 | (5) | 132 |
| Currency translation adjustment in associate undertaking | - | - | 226 | - | - | - | - | - | 226 | - | 226 |
| Change in fair value of financial instrument in associate undertaking | - | - | - | - | - | (173) | - | - | (173) | - | (173) |
| Recycle of currency translation in associate undertaking on exercise of option over financial asset | - | - | (46) | - | - | - | - | - | (46) | - | (46) |
| Recycle of change in fair value of financial instrument in associate undertaking on exercise of option over financial asset | - | - | - | - | - | 274 | - | - | 274 | - | 274 |
| Net change in fair value of available for sale financial assets, net of tax | - | - | - | - | - | 269 | - | - | 269 | - | 269 |
| **Other comprehensive income** | - | - | 317 | - | - | 370 | - | - | 687 | (5) | 682 |
| **Total comprehensive income for the period** | - | - | 317 | - | - | 370 | - | 2,391 | 3,078 | 161 | 3,239 |
| **Transactions with owners recorded directly in equity** | | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (910) | (910) | (53) | (963) |
| Acquisition of treasury shares | - | - | - | (561) | - | - | - | - | (561) | - | (561) |
| Shared based payments | - | - | - | - | - | - | 140 | - | 140 | - | 140 |
| **Total contributions by and distributions to owners** | - | - | - | (561) | - | - | 140 | (910) | (1,331) | (53) | (1,384) |
| **Balance at 31 August 2015** | **1,337** | **2,975** | **(2,515)** | **(912)** | **4,169** | **(1,227)** | **298** | **56,768** | **60,893** | **1,443** | **62,336** |

# Condensed consolidated statement of changes in equity
for the period ended 31 December 2015

| | Share capital €'000 | Share premium €'000 | Translation reserve €'000 | Reserve for own shares €'000 | Revaluation reserves €'000 | Fair value reserve €'000 | Share option reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 1,337 | 2,975 | (2,832) | (351) | 4,169 | (1,597) | 158 | 55,287 | 59,146 | 1,335 | 60,481 |
| **Total comprehensive income for the year** | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | 3,617 | 3,617 | 104 | 3,721 |
| **Other comprehensive income** | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | 41 | - | - | - | - | - | 41 | (5) | 36 |
| Currency translation adjustment in associate undertaking | - | - | 339 | - | - | - | - | - | 339 | - | 339 |
| Net change in fair value of property on reclassification to investment property, net of tax | - | - | - | - | 21 | - | - | - | 21 | - | 21 |
| Change in fair value of financial instrument in associate undertaking | - | - | - | - | - | (259) | - | | (259) | - | (259) |
| Recycle of currency translation in associate undertaking on exercise of option over financial asset | - | - | (46) | - | - | - | - | - | (46) | - | (46) |
| Recycle of change in fair value of financial instrument in associate undertaking on exercise of option over financial asset | - | - | - | - | - | 274 | - | - | 274 | - | 274 |
| Net change in fair value of available for sale financial assets, net of tax | - | - | - | - | - | 244 | - | - | 244 | - | 244 |
| **Other comprehensive income** | - | - | 334 | - | 21 | 259 | - | - | 614 | (5) | 609 |
| **Total comprehensive income for the year** | - | - | 334 | - | 21 | 259 | - | 3,617 | 4,231 | 99 | 4,330 |
| **Transactions with owners recorded directly in equity** | | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (1,611) | (1,611) | (87) | (1,698) |
| Acquisition of treasury shares | - | - | - | (1,289) | - | - | - | - | (1,289) | - | (1,289) |
| Shared based payments | - | - | - | - | - | - | 211 | - | 211 | - | 211 |
| **Total contributions by and distributions to owners** | - | - | - | (1,289) | - | - | 211 | (1,611) | (2,689) | (87) | (2,776) |
| **Balance at 31 December 2015** | **1,337** | **2,975** | **(2,498)** | **(1,640)** | **4,190** | **(1,338)** | **369** | **57,293** | **60,688** | **1,347** | **62,035** |

# Condensed consolidated statement of cash flows

for the period ended 31 August 2016

| | 8 months ended 31 August 2016 €'000 | 8 months ended 31 August 2015 €'000 | 12 months ended 31 December 2015 €'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period | **(1,378)** | 2,557 | 3,721 |
| Adjustments for: | | | |
| Depreciation | **755** | 905 | 1,317 |
| Amortisation of intangibles | **103** | 77 | 106 |
| Change in fair value of investment property | **576** | (158) | (5) |
| Net finance expense/(income) | **1,310** | (345) | (12) |
| Share of profit of associates | **-** | (1,388) | (2,082) |
| Gain on exercise of option over financial assets | **-** | (436) | (436) |
| Gain on sale of property, plant and equipment | **(17)** | (36) | (38) |
| Gain on sale of other investments | **(285)** | - | - |
| Loss on sale of investment property | **81** | 19 | 19 |
| Loss on sale of subsidiary | **-** | 6 | 6 |
| Equity-settled share-based payment transactions | **190** | 140 | 211 |
| Income tax (credit)/expense | **(1,712)** | 593 | 655 |
| Change in inventories | **472** | 1,157 | 492 |
| Change in trade and other receivables | **14,376** | 7,500 | (1,789) |
| Change in trade and other payables | **(13,759)** | (9,174) | 2,726 |
| | **712** | 1,417 | 4,891 |
| Interest paid | **(204)** | (314) | (376) |
| Income tax refunded/(paid) | **142** | (5) | 65 |
| **Net cash from operating activities** | **650** | 1,098 | 4,580 |
| **Cash flows from investing activities** | | | |
| Interest received | **6** | 16 | 20 |
| Dividends received | **2** | 2 | 39 |
| Proceeds from sale of property, plant and equipment | **37** | 69 | 69 |
| Proceeds from disposal of other investments | **386** | - | - |
| Proceeds from exercise of option over financial assets | **-** | - | 350 |
| Proceeds from disposal of investment property | **76** | 3,251 | 3,224 |
| Acquisition of treasury shares | **(1,099)** | (561) | (1,289) |
| Acquisition of property, plant and equipment | **(894)** | (585) | (714) |
| Acquisition of intangibles | **(37)** | (30) | (37) |
| **Net cash used in investing activities** | **(1,523)** | 2,162 | 1,662 |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | **(900)** | (900) | (1,200) |
| Payment of finance lease liabilities | **(65)** | (33) | (68) |
| Dividend paid to non-controlling interest | **(58)** | (53) | (87) |
| Dividends paid | **(882)** | (910) | (1,611) |
| **Net cashflow from financing activities** | **(1,905)** | (1,896) | (2,966) |
| **Net (decrease)/increase in cash and cash equivalents** | **(2,778)** | 1,364 | 3,276 |
| Cash and cash equivalents at 1 January | **82** | (3,300) | (3,300) |
| Effect of exchange rate fluctuations on cash held | **(925)** | 86 | 106 |
| **Cash and cash equivalents at period end** | **(3,621)** | (1,850) | 82 |

# Notes to the preliminary condensed consolidated financial statements
for the period ended 31 August 2016

## 1. Reporting entity
Donegal Investment Group Plc (the "Company") is a company domiciled in Ireland. The condensed consolidated financial statements of the Group as at and for the period ended 31 August 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

## 2. Basis of preparation
The consolidated financial statements for the period ended 31 August 2016 have been prepared in accordance with the International Financial Reporting Standards and Interpretations (together IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union ('EU IFRS').

The Standards and Interpretations applied were those that were effective for accounting periods ending on or before 31 August 2016.

The financial statements are presented in euro, which is the company's functional currency. All financial information presented in euro is rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets classified as available-for-sale and investment property and biological.

## 3. Accounting policies
The following standards, amendments and interpretations were applicable in the financial period beginning 1 January 2016:

- IAS 19 Amendment: *Defined Benefit Plans; Employee Contributions*
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendments to IFRS 11: *Accounting for acquisitions of interests in Joint Operations*
- Amendments to IAS 16 and IAS 38: *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to IAS 16: *Property, Plant and Equipment and IAS 41 Bearer Plants (30 June 2014)*
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*
- Amendments to IAS 1: *Disclosure Initiative*
- Annual Improvements to IFRSs 2012-2014 Cycle

For all changes to the standards above, the Group has changed its accounting policies accordingly, which did not have a material impact on the financial results or financial position of the Group.

## 4. Estimates
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in prior periods (in respect of the carrying value of goodwill, deferred tax, financial assets and liabilities).

## 5. Segment Information
IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segments and to assess their performance.

The Group comprises the following reportable business segments:

- Produce: The growing, sales and distribution of seed potatoes and organic produce.
- Food-Agri & Property: The manufacture, sale and distribution of farm inputs and dairy products and management of food-agri property assets.
- Associates: Associates is comprised of our existing investments in Monaghan Middlebrook Mushrooms in 2015, North Western Livestock Holdings and Leapgrange.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's CODM, being the Board. Segment operating profit is used to measure performance; as such information is the most relevant in evaluating the results of the Group's segments. Segment results, assets and liabilities include all items directly attributable to a segment. Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

## 5. Segment information *(continued)*

**Business segments**

| | Produce | | | Food-Agri & Property | | | Associates | | | Total-Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **8 months ended 31 August 2016 €'000** | 8 months ended 31 August 2015 €'000 | 12 months ended 31 December 2015 €'000 | **8 months ended 31 August 2016 €'000** | 8 months ended 31 August 2015 €'000 | 12 months ended 31 December 2015 €'000 | **8 months ended 31 August 2016 €'000** | 8 months ended 31 August 2015 €'000 | 12 months ended 31 December 2015 €'000 | **8 months ended 31 August 2016 €'000** | 8 months ended 31 August 2015 €'000 | 12 months ended 31 December 2015 €'000 |
| Total revenues | **13,745** | 12,672 | 33,419 | **33,756** | 33,324 | 49,464 | **-** | 67,699 | 101,548 | **47,501** | 113,695 | 184,431 |
| Less: Revenue from associates | **-** | - | - | **-** | - | - | **-** | (67,699) | (101,548) | **-** | (67,699) | (101,548) |
| Revenue – continuing operations | **13,745** | 12,672 | 33,419 | **33,756** | 33,324 | 49,464 | **-** | - | - | **47,501** | 45,996 | 82,883 |
| Inter-segment revenue | **-** | - | - | **-** | - | - | **-** | - | - | **-** | - | - |
| Segment result before exceptional items & property devaluations | **(515)** | (1,467) | (682) | **2,046** | 1,348 | 1,886 | **-** | 1,830 | 2,745 | **1,531** | 1,711 | 3,951 |
| Property devaluations | **-** | - | - | **(576)** | 158 | 5 | **-** | - | - | **(576)** | 158 | 5 |
| Inter-segmental charges | **-** | - | - | **-** | - | - | **-** | - | - | **-** | - | - |
| **Segmental result from continuing operations before exceptional items** | **(515)** | (1,467) | (682) | **1,470** | 1,506 | 1,891 | **-** | 1,830 | 2,745 | **955** | 1,869 | 3,954 |
| Exceptional items | | | | | | | | | | **(2,545)** | 686 | 621 |
| Net finance (expense)/income | | | | | | | | | | **(1,310)** | 345 | 12 |
| Income tax credit/ (expense) | | | | | | | | | | **1,712** | (203) | (655) |
| Equity-settled share-based payment transactions | | | | | | | | | | **(190)** | (140) | (211) |
| **(Loss)/profit for the period – continuing operations** | | | | | | | | | | **(1,378)** | 2,557 | 3,721 |

**Notes to the preliminary condensed consolidated financial statements (continued)**
for the period ended 31 August 2016

## 5. Segment Information *(continued)*
**Business segments** *(continued)*

| | Produce | | | Food-Agri & Property | | | Associates | | | Total-Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 |
| **Segment assets** | **8,850** | 12,361 | 22,770 | **50,493** | 52,997 | 52,732 | **-** | - | - | **59,343** | 65,358 | 75,502 |
| Investments in associates | **-** | - | - | **-** | - | - | **1,008** | 24,184 | 24,904 | **1,008** | 24,184 | 24,904 |
| Cash at bank (unallocated) | **-** | - | - | **-** | - | - | **-** | - | - | **-** | - | 82 |
| Asset hed for sale (unallocated) | **-** | - | - | **-** | - | - | **-** | - | - | **23,835** | - | - |
| Current financial instrument (unallocated) | **-** | - | - | **-** | - | - | **-** | - | - | **53** | - | 92 |
| **Total assets** | **8,850** | 12,361 | 22,770 | **50,493** | 52,997 | 52,732 | **1,008** | 24,184 | 24,904 | **84,239** | 89,542 | 100,580 |
| **Segment liabilities** | **1,843** | 1,740 | 13,929 | **7,601** | 7,318 | 8,770 | **-** | - | - | **9,444** | 9,057 | 22,699 |
| Bank overdraft (unallocated) | | | | | | | | | | **3,621** | 1,850 | - |
| Loans and borrowings (unallocated) | | | | | | | | | | **11,320** | 12,602 | 12,286 |
| Deferred tax (unallocated) | | | | | | | | | | **1,797** | 3,697 | 3,560 |
| **Total liabilities** | | | | | | | | | | **26,182** | 27,206 | 38,545 |
| Capital expenditure | **161** | 64 | 137 | **770** | 551 | 614 | **-** | - | - | **931** | 615 | 751 |
| Depreciation and amortisation | **275** | 324 | 482 | **585** | 657 | 941 | **-** | - | - | **860** | 981 | 1,423 |
| Revaluation of investment property and other assets | **-** | - | - | **571** | (688) | (369) | **-** | - | - | **571** | (688) | (369) |

| | Island of Ireland | | | Europe | | | Rest of World | | | Total-Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 |
| Revenue from external customers | **40,925** | 39,402 | 73,238 | **5,998** | 6,274 | 9,262 | **578** | 320 | 383 | **47,501** | 45,996 | 82,883 |
| Segment assets | **79,473** | 83,677 | 94,438 | **4,261** | 5,257 | 5,477 | **505** | 608 | 665 | **84,239** | 89,542 | 100,580 |
| Capital expenditure | **876** | 552 | 656 | **54** | 61 | 83 | **1** | 2 | 12 | **931** | 615 | 751 |

## 5. Segment Information *(continued)*

***Entity-wide disclosures***

*Section 1: Information about products and services*

The Group's revenue from external customers in respect of its principal products and services is analysed in the disclosures above.

*Section 2: Information about geographical areas and customers*

The Group has a presence in several countries worldwide. The revenues from external customers and non-current assets (as defined in IFRS 8) attributable to the country of domicile of all foreign operations are noted above.

***Seasonality***

The Group's Produce and Food-Agri divisions are second half weighted. This weighting is primarily driven by weather and global buying patterns.

The Group is not reliant on any one customer in the period (31 August 2015: None).

## 6. Earnings per share

The calculation of basic and diluted (loss)/earnings per share is set out below:

| | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| (Loss)/earnings for the period | **(1,378)** | 2,557 | 3,721 |
| **(Loss)/earnings attributable to ordinary shareholders** | **(1,460)** | 2,391 | 3,617 |

***Weighted average number of ordinary shares***

| ***In thousands of shares*** | **31 August 2016** | 31 August 2015 | 31 December 2015 |
|---|---|---|---|
| Weighted average number of ordinary shares in issue for the period | **10,286** | 10,286 | 10,286 |
| Weighted average number of treasury shares | **(369)** | (107) | (155) |
| Denominator for basic earnings per share | **9,917** | 10,179 | 10,131 |
| Effect of share options in issue | **96** | 94 | 77 |
| Weighted average number of ordinary shares (diluted) at 31 December | **10,013** | 10,273 | 10,208 |

The Group purchased 195,239 treasury shares at a total purchase price of €1,099,000 including transaction costs, in a number of transactions, intended to be used to settle the Group share option scheme.

| | **31 August 2016** | 31 August 2015 | 31 December 2015 |
|---|---|---|---|
| **Basic (loss)/earnings per share (euro cent)** | | | |
| Continuing | **(14.7)** | 23.5 | 35.7 |
| **Diluted (loss)/earnings per share (euro cent)** | | | |
| Continuing | **(14.7)** | 23.2 | 35.4 |

As the Group incurred a loss in the current period, share options have an anti-dilutive impact and as such have not been included in the diluted loss per share calculation.

**Notes to the preliminary condensed consolidated financial statements (continued)**
for the period ended 31 August 2016

## 7. Dividends

| | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| €0.09 per qualifying ordinary share (31 August 2015: €0.09) | **882** | 910 | 1,611 |

The Board has proposed the payment of a final dividend of 5.0 cent per share on 19 December 2016 to holders of shares on 9 December 2016. The proposed dividends were not provided for and there are no income tax consequences.

## 8. Property, plant and equipment

**Additions and disposals**
During the period ended 31 August 2016, the Group acquired assets for €894,000 (31 August 2015: €585,000). Assets with a net book value of €20,000 were disposed of during the period ended 31 August 2016 (31 August 2015: €33,000), resulting in a gain on disposal of €17,000 (31 August 2015: gain of €36,000).

## 9. Investment property

| | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| Balance at 1 January | **18,634** | 18,177 | 18,177 |
| Change in fair value | **(13)** | 158 | 5 |
| Reclassification from land & buildings | **500** | - | 483 |
| Disposal | **(73)** | (50) | (50) |
| Effect of movement in exchange rates | **(27)** | 18 | 19 |
| **Balance at 31 December** | **19,021** | 18,303 | 18,634 |

Investment property includes the Grianan estate, the Oatfield site in Letterkenny, the Bridgend property and development land in Donegal.

**Additions and disposals**
During the period ended 31 August 2016, the Group did not acquire any investment properties (31 August 2015: €nil). The Group disposed of investment property with a carrying value of €72,500 during the period (31 August 2015: €50,000) resulting in a loss on disposal of €3,600 (31 August 2015: loss of €19,000).

## 10. Investment in associates

| | 31 August 2016 | | | 31 August 2015 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Interest in associate €'000 | Loans to associate €'000 | Total €'000 | Interest in associate €'000 | Loans to associate €'000 | Total €'000 | Interest in associate €'000 | Loans to associate €'000 | Total €'000 |
| Balance at 1 January | **24,074** | **830** | **24,904** | 25,524 | 798 | 26,322 | 25,524 | 798 | 26,322 |
| Share of increase in net assets after tax | **-** | **-** | **-** | 1,441 | - | 1,441 | 2,162 | - | 2,162 |
| (Impairment)/reversal of impairment of loan to associate | **-** | **(63)** | **(63)** | - | 29 | 29 | - | 27 | 27 |
| Interest charged | **-** | **2** | **2** | - | 3 | 3 | - | 5 | 5 |
| Exercise of option over financial asset | | | | (3,612) | - | (3,612) | (3,612) | - | (3,612) |
| Transfer to asset held for sale | **(23,835)** | **-** | **(23,835)** | - | - | - | - | - | - |
| **Balance at 31 December** | **239** | **769** | **1,008** | 23,353 | 830 | 24,183 | 24,074 | 830 | 24,904 |

The Group's share of after tax profits in its associates, primarily related to Monaghan for period ended 31 August 2015, for the period was €Nil (31 August 2015: €1,441,000).

## 10. Investment in associates *(continued)*

As previously advised, the Company took a shareholder oppression claim relating to its shareholding in Monaghan. The respondents to this claim were the majority shareholders in Monaghan (the "Respondents"). The Commercial Court, a division of the High Court, gave judgment on 5 December 2014 in an individual module of the case, being the price at which the Respondents might purchase the Company's interest in Elst (the "Valuation Module"). The Court determined this price to be €30.6m. This price was based on a shareholding of 35% in Elst (the "High Court Valuation Order"). In separate proceedings, the Court held that the Respondents had an option to acquire 5% of Elst that was held by the Company. This Option has been exercised and the Company's shareholding in Elst is now 30%. On the basis of a 30% shareholding in Elst, the Company's interest in Elst is valued by the Commercial Court pursuant to the judgment of 5 December 2014 at €26,228,570.

After the Valuation Module, the Commercial Court proceeded to a hearing on oppression and the appropriate remedy that ought to be directed (the "Remedy/Oppression Module"). On 21 May 2015, the Respondents (being the majority shareholders in Elst) admitted specified and unspecified acts of oppression and on 21 May 2015 the Commercial Court ordered the Respondents to purchase the shares held by the Company in Elst at the price fixed by it on 5 December 2014 (the "High Court Remedy Order"). On 5 June 2015, the Commercial Court made an order for costs in respect of the Valuation Module and Remedy/Oppression Module in favour of Donegal (the "High Court Costs Order").

The Company appealed the High Court Valuation Order and High Court Remedy Order to the Court of Appeal. The appeals were heard by the Court of Appeal in April 2016. The Court of Appeal delivered judgment on 8 June 2016. The Court of Appeal allowed the Company's appeal in respect of the High Court Valuation Order. It vacated the said Order and remitted back to the High Court for a rehearing on the price at which the Respondents should purchase the Company's 30% shareholding in Elst (the "Court of Appeal Valuation Order") (the "Rehearing").

The Court of Appeal upheld the decision of the High Court in respect of the High Court Remedy Order save in relation to the precise amount which falls to be determined in the Rehearing.

The Respondents also appealed the High Court Costs Order to the Court of Appeal. The appeal was heard on 7 July 2016 and judgment was delivered on 27 July 2016 allowing the appeal. The High Court Costs Order was vacated and the Court of Appeal directed that there be no Order as to costs in respect of the Valuation Module and the Remedy/Oppression Module (the "Court of Appeal Costs Order").

The Respondents sought leave to appeal the Court of Appeal Valuation Order to the Supreme Court. The Company sought leave to appeal the Court of Appeal Costs Order. Leave was granted by the Supreme Court in both and directions have been set down by the Supreme Court with regard to the delivery of legal submissions. The Supreme Court indicated that it would endeavour to allocate a hearing date of the appeal against the Court of Appeal Valuation Order in January 2017. Once this appeal is heard, a hearing date will be allocated to the appeal against the Court of Appeal Costs Order.

The Rehearing in respect of the valuation of the Company's shareholding necessitated by the Court of Appeal Valuation Order was listed to be heard on 8 December 2016. The Rehearing date has been vacated pending the outcome of the Supreme Court appeal against the Court of Appeal Valuation Order.

As a result of the Court of Appeal decision to uphold the High Court Remedy Order, the Group's share in Monaghan Middlebrook Mushrooms was transferred to an asset held for sale as at 1 January 2016.

## 11. Asset held for sale

| | **31 August 2016 €'000** | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|
| Balance at 1 January | **-** | - | - |
| Transfer from investment in associates | **23,835** | - | - |
| **Balance at 31 December** | **23,835** | - | - |

As outlined in note 10, as a result of the Court of Appeal decision to uphold the High Court Remedy Order, the Group's share in Monaghan Middlebrook Mushrooms was transferred to an asset held for sale as at 1 January 2016, as its value will be recovered through a sales transaction.

The asset held for sale is not held at market value and was accounted for using the equity accounting method up to the date of transfer from investment in associates. A valuation report was commissioned by Donegal Investment Group which values the Group's shareholding in Monaghan Middlebrook Mushrooms at an amount significantly higher than its current carrying value.

**Notes to the preliminary condensed consolidated financial statements (continued)**
for the period ended 31 August 2016

## 12. Exceptional items

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Such items are included in the statement of profit or loss and comprehensive income caption to which they relate and are separately disclosed in the notes to the Group Financial Statements.

The Group reports the following exceptional items:

| | | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 |
|---|---|---|---|---|
| Restructuring costs | a | **(141)** | - | (50) |
| Associate exceptional costs, net | b | **-** | (442) | (663) |
| Reversal of legal costs receivable in respect of oppression action with Monaghan | c | **(1,800)** | 1,800 | 1,800 |
| Legal costs payable in respect of the option case with Monaghan | d | **-** | (240) | (240) |
| Accounting profit in respect of the exercise of option over financial asset held by Monaghan | e | **-** | 436 | 436 |
| Legal costs in respect of the ongoing legal case with Monaghan | f | **(569)** | (473) | (617) |
| Legal costs receivable in respect of other legal cases | g | **(35)** | (6) | (45) |
| Income tax benefit/(expense) in respect of exceptional items | | **450** | (390) | (390) |
| | | **2,095** | 685 | 231 |

a) Restructuring costs include operational costs, redundancy costs, legal, and accounting and taxation advice in respect of costs associated with restructuring the Group.
b) Associate exceptional costs include costs in respect of a change in EU grant funding model and redundancy costs.
c) Estimated legal costs receivable in respect of costs awarded by the Courts in 2015 to the Group in respect of the Oppression Action and overturned by the Courts in 2016.
d) Estimated legal costs payable in respect of costs awarded by the Courts against the Group in respect of share option legal case.
e) Accounting profit in respect of the exercise of the option over financial assets held by Monaghan.
f) Legal costs are costs in respect of the ongoing legal case with MMM
g) Legal costs are costs in respect of other legal cases.

## 13. Related parties

**Transactions with key management personnel**

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of €541,000 relating to two executive directors for the period (31 August 2015: €304,000 relating to two executive directors, one of which was appointed on 1 July 2015). Total remuneration is included in "administration expenses."

**Other related party transactions**

| | Transaction value | | | Balance outstanding | | |
|---|---|---|---|---|---|---|
| | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 | 31 August 2016 €'000 | 31 August 2015 €'000 | 31 December 2015 €'000 |
| **Sale of goods and services** | | | | | | |
| Sales by Group to directors | **192** | 222 | 336 | **39** | 43 | 39 |

## 14. Events after the balance sheet date

There have been no significant events subsequent to the period end, which would require adjustment to, or disclosure in, the financial statements.

# Notes

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Donegal

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