growing our global market

Donegal Creameries plc -
Annual Report & Financial Statements 2011

SIGNIFICANT PROGRESS IN THE GROUP'S STRATEGIC PLANS IN A YEAR OF SIGNIFICANT CHANGE

Contents

Summary

Planned transformational change for the Group with the sale of its liquid and trade milk and Agri-stores businesses

Sale of liquid and trade milk provides an exit from a low margin cyclical business, as part of sector consolidation to achieve the necessary scale efficiencies and ability to withstand customer pricing pressures so as to generate sustainable financial returns

Connacht Gold Co-operative Society Limited will now be a strong number two player in the Republic of Ireland market and will have the scale and ability to better provide our former milk producers with access to quota and assured processing capacity for their milk

The sale of our Agri-stores business enables the Donegal Creameries Group to focus on the opportunities in its Produce, Valued Added Dairy, Agri-inputs divisions and its key associate investments

This is further evident in the acquisitions completed during the year in the key strategic areas of valued added dairy and seed potatoes:

- On 6 January 2011, the Group acquired a controlling interest in Biogreen Limited, a boutique yogurt business based in London and
- On 11 November 2011, the Group acquired 100% of the AJ Allan Seed Potato Group, the Scottish based grower and marketer of seed potatoes

Group turnover from continuing operations increased by 13.6% from €61.3m to €69.6m reflecting increases across all continuing operations - Valued Added Dairy up 1.9%, Agri-inputs up 10.3% and Produce up 21.9%

Operating profit from continuing operations, before net finance costs, changes in fair value of investment properties, contribution from Associates and tax, declined from €3.96m to €3.63m, a reduction of 8.3%. Operating profits in Agri-inputs increased by 23.3% from €1.0m to €1.2m and in Produce by 32.8% from €2.6m to €3.4m. In contrast our Value Added Dairy business recorded an operating loss of €1.4m in comparison with an operating profit of €0.13m in 2010 as a result of further investment in management and marketing to drive future growth

The Group's share of associate investment results, in the main Monaghan Middlebrook Mushrooms, declined by €2.1m to €1.66m during the year. This was attributable to a combination of a €1.2m reduction in operating performance (of which €1.0m occurred in the first half of 2011) due to a challenging UK mushroom market and a further reduction of €0.9m in the carrying value of associate properties. In January 2012, Monaghan Middlebrook Mushrooms acquired a majority shareholding in Dutch company Walkro International, one of the largest producers of mushroom substrate in Western Europe.

Further downward revaluations of €6.7m in Group, and €0.9m in associate, property holdings. The Board has now valued the majority of development land within the Group's portfolio, as well as its share of associates' development land, at agricultural values and therefore would not expect any further significant reductions in value going forward

Net finance expenses rose from €0.37m in 2010 to €1.7m in 2011 largely due to a €0.2m gain from sterling euro exchange rate movements versus a €0.8m gain in 2010 and increased borrowing costs of €0.5m

Net debt increased from €23.2m at 31 December 2010 to €32.9m during the year with acquisition spend of €4.5m and capital expenditure of €2.4m during the year. However, following completion of the disposals to Connacht Gold Co-operative Society Limited, borrowings have been significantly reduced and at 11 April 2012 net debt was just below €20m and is expected to further reduce at the interim stage

Dividend per share maintained at 16c

Financial Highlights

Turnover- continuing operations
€69.6m
Restated**** 2010: €61.3m + 13.6%

Adjusted operating profit*
€3.6m
Restated**** 2010: €4.0m (8.3%)

(Loss)/profit before tax
– continuing operations
(€3.2m)
Restated**** 2010: €3.1m (€6.3m)

(Loss)/profit after tax
– continuing operations
(€2.0m)
Restated**** 2010: €3.6m (€5.6m)

Operating cashflow before interest & tax
(€0.7m)
Restated**** 2010: €2.1m (€2.9m)

Adjusted earnings per share**
48.8c
Restated**** 2010: 73.1c (24.3c)

Dividend per share
16c
Restated**** 2010: 16c

Investment property valuation
€25.8m
Restated**** 2010: €31.1m (€5.2m)

Net asset value per share***
€5.09
Restated**** 2010: €5.99 (0.90c)

* Adjusted operating profit before the impact of change in fair value of investment properties and exceptional items
** Adjusted earnings before the impact of change in fair value of investment properties in group & associates, the related deferred tax and CGT rate change in 2011
*** Net assets are total equity attributable to equity holders of the Company
**** As re-presented to reflect the effect of discontinued operations

Directors & Other Information

Board of Directors

The Board of Directors of Donegal Creameries plc comprises eleven non-executive directors and two executive directors.

Ian Ireland (Managing Director), BSC, MBA, Chartered Director (aged 50) joined Donegal Creameries plc in January 2005. Prior to that he had spent over 20 years working in the food industry in Ireland and the UK.

John McDermott (Finance Director and Company Secretary), (aged 47) Appointed in October 2008 having worked as a Financial Controller in the Dairy Division since 1998. He has over 15 years experience as an accountant in both the retail and food industry in Ireland and the UK.

Geoffrey Vance (aged 60) is Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries 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. He is a farmer.

Ivan Grier (aged 67) has served on the Board of Donegal Creameries 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. He is also a director of North Western Livestock Holdings Limited and the Donegal County Enterprise Board.

Francis Devenny (aged 66) has served on the Board of Donegal Creameries 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. He has significant residential and other property interests in the Letterkenny area.

Matt McNulty (aged 66) was appointed to the Board as an independent director on 19 August 1998. In a career of over 35 years he has held a number of senior positions in the public service including that of Director General of Bord Failte – the Irish Tourist Board. He has served on government bodies and Committees dealing with tourism, transport, education, urban renewal, conservation, heritage, and taxation policy. Through his current work as an international management consultant he is familiar with the planning, budgeting, financial control and execution of projects of scale. He is chairman of Temple Bar Cultural Trust (previously Temple Bar Properties), Director of Ilex Urban Renewal Company in Northern Ireland and a director of a number of companies in the tourism services sector. He is a founding director and former chairman of the People in Need Charity and is chairman of Tara's Palace Trust – a children's charity.

Patrick Kelly Jnr (aged 39) 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. He is a farmer.

Norman Witherow (aged 59) 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. He is a farmer.

Marshall Robinson (aged 56) has served on the Board of Donegal Creameries 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. He is also a director of Raphoe Enterprise Company Limited, North Western Livestock Holdings Limited and Treasurer of Donegal Farm Relief Services Limited. He is a farmer.

Lexie Tinney (aged 73), former Chairman, has served on the Board of Donegal Creameries 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.

Michael Griffin (aged 64) was appointed to the Board on 1 March 2010. Michael is a graduate of UCC and has over 35 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.

Geoffrey McClay (aged 46) was appointed to the Board on 1 July 2010. Geoffrey is a dairy farmer and previously served on the Board of Donegal Creameries plc during the period 2001 to 2006. He is also currently a director of Mullinacross Enterprises Limited.

Frank Browne (aged 59), was appointed to the Board on 29 June 2011. Frank is a dairy farmer and previously served on the Board of Donegal Creameries plc from 1996 to 2006. He holds no other directorships.

Secretary and registered office

J McDermott
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

Principal Bankers

Ulster Bank Limited
Letterkenny
Co Donegal

Chairman's statement

FOCUSING ON KEY STRATEGIC AREAS

It is appropriate that I begin my statement for 2011 with a summary of the most significant development in the Group since our formation. We have for a long time recognised the uniqueness of the Group with its traditional roots in the dairy milk business along with other diversified activities. As you know I have previously reported that the Board had adopted a proactive stance in finding a long term solution for our milk producers as well as focusing on key strategic areas of seed potato, value added dairy and associate investments. The issues faced by our milk producers, included the short term issue of quota management as well as long term access to processing capacity post quota in 2015 in the context of the national commitment to Food Harvest 2020. The Board had evaluated various strategies for investment in processing capacity but the capital investment required could not be justified on the basis of the expected financial returns and hence would not have been the correct decision for all stakeholders. In the wider perspective it would also run contrary to the national need for consolidation to build larger scales of operation. As such, it was most important that we delivered an alternative long term solution for our milk business for the benefit of all our stakeholders.

I am confident that the disposal of our liquid and trade milk businesses and our Agri-stores business to Connacht Gold Co-operative Society Limited provides such a solution. Our milk producers will now have access to quota and will be part of a larger Dairy business which has excellent capacity to process their milk. I believe the milk and Agri-stores employees will benefit from improved career development and employment prospects as part of the larger Connacht Gold Co-operative Society operations. The combined liquid milk businesses of Connacht Gold Co-operative Society and Donegal represents a strong number two supplier in the Republic of Ireland market and the combined stores business will be the leading Agri-stores business in the North West of Ireland. In the medium to long term I believe that Connacht Gold Co-operative Society will be a better owner of our Milk business given the need for scale in the sector. Furthermore, unlike Donegal Creameries, Connacht Gold Co-operative Society has the ability to utilise the total milk supply pool through its use as an input into other dairy products thereby avoiding the cyclical impact from the need to trade excess milk to other third party processors. Finally, I also believe that this is a good deal for our shareholders. The Board is satisfied with the financial component of the transaction and views the disposal as a major strategic step towards the development of a less cyclical, faster growing and more profitable Group.

The disposal of our milk and stores businesses in 2011 was balanced by two important acquisitions. In January 2011, the Group acquired a controlling interest in Biogreen Foods Limited, a niche yogurt business based in London and in the final quarter, the Group acquired 100% of the AJ Allan seed potato business, the Scottish based grower and marketer of seed potatoes which has significantly improved the Group's overall seed potato business. The Board sees 2012 as a year of consolidating the strategic changes made to the Group during 2011 and does not expect any major activity with regard to either acquisitions or disposals.

Turnover from continuing operations increased by 13.6% to €69.6m. This was driven mainly by growth of 21.9% in the produce division. As previously outlined to shareholders, the Board had identified produce and in particular its seed potato business as a key strategic growth area and is very pleased with the continued progress experienced in this business during 2011. The value added dairy business had a challenging year with modest growth in sales of 1.9% and sales in our Agri-inputs business grew by 10.3% to €27.7m, driven mainly by higher commodity pricing.

The Group made an adjusted operating profit from continuing operations of €3.6m, down from €4.0m in 2010, primarily due to losses in our value added dairy business. We have, within the last two years in value added dairy, acquired a number of niche businesses in which we are investing for future growth. The financial performance from all other Group activities was satisfactory.

In terms of our property portfolio we have returned the majority of our development land to agricultural land valuations resulting in further downward revaluations of €6.7m in Group, and €0.9m in associate, property holdings. Shareholders will be very aware of the current state of the Irish property market and also our requirement to have all investment properties independently valued annually. As a result of the action taken, the Group does not expect any further significant reductions in value going forward.

The Group has delivered adjusted earnings per share from continuing operations of 48.8 cent.

Dividend

The Directors are recommending a final dividend of 9 cent per share. If approved, this dividend will be paid on 24 August 2012 to those shareholders on the register on 3 August 2012. This will bring the total dividend per share to 16 cent, maintaining the 2010 dividend payment.

AGM

The Group's AGM will take place on Wednesday 4 July 2012 at 11.30am in the Silver Tassie Hotel, Letterkenny, Co. Donegal.

In conclusion I would like to recognise the considerable efforts and achievements of my Board colleagues during the year and in particular their success in implementing significant planned strategic change to the Group's operations. I would also like to thank our former milk producers and employees for the significant contributions they have made to our Milk and Agri-stores businesses over many years and to wish them and Connacht Gold Co-operative Society continued success.

Geoffrey Vance
Chairman


SCOTTISH
BASIC


mblers
ES DE CEREALES
RAISES
AIT FERMENTE
OBIOTIQUE ALLEGE
Rumblers
PITES DE CEREA
EUX
LATS BELGES
& LAIT FERMENT
PROBIOTIQUE ALLEG


ORGANIC
"Good heavens!"
DIVINE DRINKING YOGURT
VANILLA
ORGANIC
"Good heavens!"
DIVINE DRINKING YOGURT
MANGO & PASSIONFRUIT
ORGANIC
"Good heavens!"
DIVINE DRINKING YOGURT
BANANA
ORGANIC
"Good heavens!"
DIVINE DRINKING YOGURT
STRAWBERRY


Rooste
urite Pota

Managing Director's Review

PLATFORM FOR FUTURE GROWTH

Operations review

Produce Division

A very satisfactory performance from our Produce Division saw turnover increase by 21.9% to €32.3m delivering a segmental profit of €3.4m, an increase of 32.8% on 2010. All key markets for our seed potato business performed well.

On 11 November 2011, the Group acquired 100% of the AJ Allan seed potato business, the Scottish based grower and marketer of seed potatoes. The acquisition, effected through our Irish Potato Marketing (IPM) business, has significantly improved the Group's overall seed potato business. AJ Allan is based in Brechin, Scotland, has significant storage and grading facilities and grows approximately 12,000 tons per annum of certified seed potatoes. Furthermore, the acquisition will strengthen IPM's production base in Scotland by adding a new dimension of direct growing to augment IPM's current contract growing arrangements. IPM will use the AJ Allan platform to further grow its sales of proprietary seed potato varieties into the 35 global markets in which it currently operates.

During the year we received our first royalty payments from Australia. We have further developed our market strategies in a number of new potential markets and we remain confident of developing successful markets in South America, Turkey, South Africa and Asia and expect further progress on this front during the coming year. This will create a solid commercial platform for the global business. We have a number of new seed varieties in the early stages of trialling and these are showing considerable promise. The Board remains confident that developing our proprietary certified seed potato business will be key to driving overall Group profitability going forward.

Dairy Division

Following the disposal of our liquid and trade milk businesses, the Group has retained its value added dairy business which includes The Different Dairy Company based in Killygordon, County Donegal and our two UK businesses, Chef in a Box and Biogreen. The Different Dairy Company consists of Rumblers, a business which makes a food on the go offering with listings in the UK in over 3,500 outlets and Organic For Us, an organic yogurt business focused on the Irish Retail market which was launched in 2010. Chef in a Box provides meal solutions to the hotel and travel sectors. During 2011, it relocated to a larger and more modern facility near Slough. Biogreen is a boutique yogurt business with a range of premium and ethnic products. In 2011, the segmental result for the value added dairy business was a loss of €1.4m (2010: profit of €0.13m). This reflects the challenging consumer environment, particularly in Ireland, and the fact that the majority of these niche dairy businesses are in the early stages of development with considerable investment in management and marketing during the year, necessary to drive future growth and profitability.

Agri-inputs

Following the disposal of our Agri-stores business, Smyths Daleside Animal feeds will be the main Agri-inputs business going forward. Turnover during the year was €27.7m, an increase of 10.3%, and the segmental result increased by 23.3% to €1.2m. Smyths is a well invested business with good facilities, systems, an experienced workforce and a strong presence in the North West of Ireland market with a loyal and local customer base. The business is well positioned for future growth and cash generation.

Property and investments

There were no property acquisitions or disposals during the year. The Group have reduced further the carrying value of its property portfolio, including property in associates, in line with the depressed property market in Ireland. The majority of development land assets are now carried at agricultural values and as such we would not expect any further significant reductions in value going forward. The total cumulative downward revaluation in the five years to 2011 was €11.8m.

Associates

The Group's share of associate investment results, in the main Monaghan Middlebrook Mushrooms, declined by €2.1m to €1.66m during the year. This was attributable to a combination of a €1.2m reduction in operating performance, €1m of which occurred in the first half of 2011 due to a challenging UK mushroom market and a further reduction of €0.9m in the carrying value of associate properties. In January 2012, Monaghan Middlebrook Mushrooms acquired a majority shareholding in Dutch company Walkro International, one of the largest producers of mushroom substrate in Western Europe.

Finance

The Group currently has committed bank facilities of €27m. During the year the Group spent €4.5m on acquisitions and €2.4m on capital expenditure. Furthermore operating cash flow for the year was negative, which included losses incurred in our Milk businesses. However, following completion of the disposals to Connacht Gold Co-operative Society, borrowings have been significantly reduced and at 11 April 2012 net debt was just below €20m and is expected to further reduce at the interim stage. The disposals to Connacht Gold Co-operative Society provide for further contingent earn-out payments of up to €7.4m dependent on the operating and financial performance of the liquid and trade milk businesses during the year to 31 December 2012.

Outlook

Further to the Chairman's statement, 2012 will be a year to consolidate the strategic changes made to the Group during 2011. Our key strategic objectives of the past number of years have not changed and following the disposals of our milk and Agri-stores businesses we will be in a position to increasingly focus our financial and management resources on the strategic areas of seed potato, value added dairy and associate investments, so as to deliver shareholder value.

I would like to thank my colleagues for their considerable contribution and commitment in delivering the transformational changes to the Group during 2011. Furthermore, I would like to specifically recognise our Board and its leadership, who very objectively made the decision to significantly change the Group for the benefit of all our stakeholders.

Ian Ireland
Managing Director


"Good heavens!"
DIVINE YOGURT & COMPOTE
Creamy yogurt over luscious fruit


New
Organic For us
Low Fat Milk
Whole Milk
Strawberry


SMYTHS


Chef in a Box
Henley Road

Corporate Social Responsibility

PROMOTING CSR ACROSS THE GROUP

Donegal Creameries plc is committed to promoting 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 the principles of the Revised UK Corporate Governance Code (formally The Combined Code) where practicable. A review of corporate governance is addressed in the corporate governance report on pages 16 to 21.

The environment

At a minimum, the Group is committed to comply with all environmental legislative and regulatory requirements in our operations which are located in six countries. Donegal Creameries 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. The estate provides ingredients for our 'Organic-for-Us' milk and yogurt products.

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 full time 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, the Donegal Hospice and Donegal GAA & FAI clubs during the year.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities

During the year, the Group was engaged in the intake and processing of milk, the manufacture of milk products by its dairy business, the development, purchase and sale of seed potatoes, the manufacture, sale and distribution of farm inputs by its agri-business segment and the leasing, development and sales of property.

Business review

Turnover from continuing operations increased by 13.6% to €69.6m (2010: €61.3m). The Chairman's statement and Managing Director's review include a comprehensive review of the Group's businesses. The Group recorded an operating loss of €3.1m before exceptional items in comparison with a loss of €0.23m in 2010, or an adjusted operating profit of €3.6m in 2011 and €4m in 2010 before the impact of devaluation in investment properties in Group & associates, the related deferred tax and CGT rate change in 2011, primarily due to losses in our value added dairy business. Adjusted earnings per share of 48.8 cent decreased from adjusted earnings per share of 73.1 cent in 2010. In monitoring performance the directors and management have regard to a range of key performance indicators (KPIs), including the following:

Financing KPI's	2011*	2010**	Change
EBITDA	**(€0.77m)**	€5.99m	(€6.76m)
Operating loss	**(€3.1m)**	(€0.23m)	(€2.87m)
(Loss)/profit before tax	**(€3.18m)**	€3.15m	(€6.33m)
Net decrease in cash & overdrafts	**€5.8m**	€6.0m	(€0.2m)
Net debt (including overdrafts)	**€32,898**	€23,184	€9.71m
Net assets	**€52.5m**	€61.6m	(€9.1m)

* Pre-exceptional costs
** As represented to reflect the effect of discontinued operations

Profits, dividends and reserves

Loss for the financial year amounted to €7.85million (2010: profit €3.06 million). A final dividend for 2010 of 9.0 cent per share was paid on 25 August 2011. An interim dividend for 2011 of 7.0 cent per share was paid on 2 December 2011. The Directors are recommending a final dividend of 9.0 cent per share. If approved, this dividend will be paid on 24 August 2012 to those shareholders on the register on 3 August 2012.

The results for the financial year ended 31 December 2011 are set out in detail on pages 29 to 91.

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:

- Reduced consumer demand;
- 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;
- 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 16 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.

Directors' report continued

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. 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 and 9.

Events since the year end

The Group disposed of its interest on the liquid and trade milk business and agri stores business on 13 January 2012.

Total potential consideration receivable on disposal is €22.7m which includes deferred consideration payable and working capital adjustments. The current estimate of minimum profit on disposal is €5.5m including the impact of recycling foreign exchange gain from equity of €0.14m. The deferred consideration is based on the operating and financial performance of the liquid and trade milk businesses during the year to 31 December 2012. Working capital adjustments are expected to be finalised by June 2012.

Board of Directors

The directors of the Company on 12 April 2012 are listed on pages 2 and 3. Lexie Tinney retires by rotation and does not intend to go forward for re-election. Francis Devenny and Norman Witherow also retire by rotation and intend to stand for re-election as directors at the Annual General Meeting. Finally, Ivan Grier has informed the secretary that he intends to retire from the Board at the Annual General Meeting. Due to the ongoing review process in the respect of the size and composition of the Board, it is not intended to replace the two retiring directors at the Annual General Meeting.

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 212 of the Companies Act, 1990). 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.

Throughout the year ended 31 December 2011, 143,835 ordinary shares of 13 cent each were held as treasury shares by Donegal Creameries plc. This represented 1.4% of the called up share capital of the Company. The total cost of acquisition of treasury shares is €348,394.

Substantial holdings

As at 12 April 2012, the Company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
Goodbody Stockbroker Nominees	743,509	7.23%

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.

Books and records

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Ballyraine, Letterkenny, Co Donegal.

Research and development

The Group subsidiary, Irish Potato Marketing 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 Dairy division is committed to continuous research & development in respect of our added value dairy products through the development of new milk and yogurt products ranges for the Irish, UK and European markets.

Corporate Governance
Compliance with the provisions of the Code and the Group's system of internal control are set out page 16 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 160(2) of the Companies Act, 1963.

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 36 to the financial statements.

Political contributions
There were no political contributions which require disclosure under the Electoral Act, 1997.

AGM
The Company's Annual General Meeting will take place at the Silver Tassie Hotel, Letterkenny, Co. Donegal on 4 July 2012. 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

12 April 2012

Corporate Governance report

Maintaining high standards of corporate governance continues to be a priority of the directors of Donegal Creameries plc. The Revised UK Corporate Governance Code (formally The Combined Code) is the foundation on which the corporate governance policy is based.

The Board has reviewed the Revised UK Corporate Governance Code ('the Code') and it is Group policy to apply all of the relevant main and supporting principles of good governance in the Code.

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 with which voluntary compliance is currently being considered.

The directors are accountable to the shareholders for good corporate governance and this report addresses how the relevant main and supporting principles of the Code have been applied within the Group.

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 year and certain matters are specifically reserved to the Board for its decision.

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 eleven non-executive Directors. Biographical details are set out on pages 2 and 3.

While the board size and composition is within a range which is appropriate to address the needs and risks of the Group, as a result of the sale of the liquid and trade milk and agri-stores business in January 2012, a review of the board nomination procedures, board composition and board renewal is currently under review and is expected to be finalised in the third quarter of 2012.

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.

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 ten non-executive directors. The names of the directors together with their biographical details are set out on pages 2 and 3. 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 Board's decision making.

The Code 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 2011 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.

The directors are given access to independent professional advice at the Group's expense, when the directors deem it is 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, against the criteria set out in the Code and in the context of the matters referred to above, 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 trade with the Group on normal business terms and the fact that a number have served on the Board for more than nine years. Each director's business relationship with the Group reduces significantly due to the sale of the liquid and trade milk and agri-stores business on 13 January 2012. In reaching that conclusion, the Board considered the principles relating to independence contained in the Code, 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.

Corporate Governance report continued

Nomination Committee
The nomination Committee at 31 December 2011 is comprised of three non-executive directors, Ivan Grier, who acts as chairman, Francis Devenny and Geoffrey McClay.

The Nomination Committee is responsible for proposing to the Board any new appointments, whether of 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 a process in place for the annual evaluation of the performance of the Board, its principal Committees, and individual directors in line with the requirements of the Code.

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.

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 year, other than during close periods. All Directors are available to meet with such shareholders throughout the year. The Company also encourages communication with shareholders throughout the year 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 Company are also circulated to the Board members on a regular basis. The Group's website, www.donegal-creameries.ie, provides the full text of the Annual Reports, Interim Management Statements and Half Yearly Financial Reports. These can be accessed through the News 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 chairmen of the Board's committees are 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, which is based on the Code Guidance for directors, issued by the Institute of Chartered Accountants in England and Wales (the Turnbull Guidance), 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.

In accordance with the guidance of the Turnbull Committee, the directors are responsible for the Group's system of internal control, set appropriate policies on internal control, should 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 2011, 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 auditors 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 annual accounts 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 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.

Corporate Governance report continued

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

Twelve meetings of the Board, five meetings of the Remuneration Committee, six meetings of the Audit Committee and one meeting of the Nomination Committee were held during the year ended 31 December 2011 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	12	12	-	-	-	-	-	-
Ian Ireland	12	12	-	-	-	-	-	-
Francis Devenny	12	11	-	-	-	-	1	1
Ivan Grier	12	12	-	-	-	-	-	-
John McDermott	12	12	-	-	-	-	-	-
Patrick Kelly Jnr	12	12	-	-	6	6	-	-
Matt McNulty	12	8	5	5	6	4	-	-
Marshall Robinson	12	12	-	-	6	6	1	1
Lexie Tinney	12	10	5	5	-	-	-	-
Norman Witherow	12	12	5	5	-	-	-	-
Michael Griffin	12	10	-	-	-	-	-	-
Geoffrey McClay	12	12	-	-	-	-	1	1
Frank Browne	7	7	-	-	-	-	-	-

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 25.

Audit Committee

The Audit Committee comprises of three non-executive directors – Marshall Robinson, Patrick Kelly Jnr (Chairman) and Matt McNulty. The Committee held six formal meetings during 2011. 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 year to 31 December 2011, fees charged in relation to non-audit related services totalled €149,000 (2010: €39,000) 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 and team.

In 2011 the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for 2011, meeting and reviewing with the external auditor prior to Board approval of 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 year;
- reviewing and approving the audit fee and reviewing non-audit fees that may be payable to the Group auditor;
- considered the external auditors' plan for the annual audit of the Group's financial statements for 2011;
- 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.

Compliance Statement

The directors confirm that the Group has been in compliance with the relevant main and supporting principles of the Revised UK Corporate Governance Code throughout the financial year under review, other than with respect to the following matters:

- no senior independent director has been identified; and
- the majority of the non-executive directors, as farmers, have a business relationship with the Group, trade with the Group on normal business terms and a number have served on the Board for more than nine years.

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

Geoffrey Vance
Director

Ian Ireland
Director

12 April 2012

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 Lexie Tinney, Matt McNulty 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 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 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 under this scheme are set out in note 28 to the financial statements.

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 to 25, details of directors' share options and shareholdings are given on pages 24 to 25 and details of directors' pensions are set out on page 24.

Pensions

The two 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 John McDermott were the only executive directors in place during the year.

	2011 €	2010 €
Salaries and benefits		
Basic salary	**366,843**	366,843
Benefits [1]	**42,163**	37,422
	409,006	404,265
Performance related		
Annual incentives [2]	**36,234**	129,309
Pension charge [3]	**68,144**	68,144
Total executive directors' remuneration	**513,384**	601,718
Average number of executive directors	**2**	2
Average annual basic salary per executive director	**183,422**	183,422

No share options were granted during the year. See below and note 28 of the financial statements.

Non executive directors

	2011 €	2010 €
Fees and other emoluments		
Fees [4]	**181,999**	169,705
Other emoluments and benefits	**1,827**	1,827
	183,826	171,532
Other remuneration	**-**	-
Total non-executive directors' remuneration	**183,826**	171,532
Average number of non-executive directors	**11**	10
Total directors' remuneration	**697,210**	773,250

In addition, a charge of €39,000 (2010: €58,000) has been recognised with respect to share options granted to executive directors and management.

Notes to directors' remuneration

1 Benefits principally relate to a car allowance.
2 The incentive plan is outlined on page 22.
3 The pension charge represents defined contributions made to pension funds.
4 Eleven non-executive directors received fees in 2011 (2010: Ten).

Report of the remuneration committee continued

	Basic salary (i) €	Incentive bonus €	Benefits €	Pension & other related costs €	2011 Total €	2010 Total €
Executive directors						
I Ireland	262,343	26,234	28,258	52,469	**369,304**	436,456
J McDermott	104,500	10,000	13,905	15,675	**144,080**	165,262
	366,843	36,234	42,163	68,144	**513,384**	601,718

	Basic salary €	Fees €	Incentive bonus €	Benefits €	Pension & other related costs €	2011 Total €	2010 Total €
Non-executive directors							
G Vance	**42,943**	**-**	**-**	**-**	**-**	**42,943**	42,943
L Tinney	**15,064**	**-**	**-**	**1,827**	**-**	**16,891**	15,394
M McNulty	**18,402**	**-**	**-**	**-**	**-**	**18,402**	17,804
N Witherow	**15,064**	**-**	**-**	**-**	**-**	**15,064**	14,064
F Devenny	**12,868**	**-**	**-**	**-**	**-**	**12,868**	12,868
I Grier	**12,868**	**-**	**-**	**-**	**-**	**12,868**	13,567
C Tindal (resigned 1 July 2010)	**-**	**-**	**-**	**-**	**-**	**-**	6,784
M Robinson	**14,363**	**-**	**-**	**-**	**-**	**14,363**	13,167
P Kelly Jnr	**15,563**	**-**	**-**	**-**	**-**	**15,563**	15,563
Michael Griffin (appointed 1 March 2010)	**15,711**	**-**	**-**	**-**	**-**	**15,711**	13,093
G McClay (appointed 1 July 2010)	**12,868**	**-**	**-**	**-**	**-**	**12,868**	6,285
Frank Browne (appointed 29 June 2011)	**6,285**	**-**	**-**	**-**	**-**	**6,285**	-
	181,999	**-**	**-**	**1,827**	**-**	**183,826**	171,532

Directors' share options

Details of movements on outstanding options are set out below:

	At 31 December 2010	Granted in 2011	Exercised in 2011	At 31 December 2011	Average Option Price 2011
I Ireland	150,000	-	-	**150,000**	**4.35**
	30,000	-	-	**30,000**	**6.90**
	30,000	-	-	**30,000**	**3.00**
	210,000	-	-	**210,000**	
J McDermott	30,000	-	-	**30,000**	**3.00**
	240,000	-	-	**240,000**	

The market price of the Company's shares at 31 December 2011 was €3.10 (2010: €4.00) and the range during 2011 was €3.00 to €4.70 (2010: €1.90 to €4.70). See note 28 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.

Report of the remuneration committee continued

Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2011 in the ordinary shares of the Company at 31 December 2011 (or date of appointment, if later) and 31 December 2010 are set out below:

	31 December 2011	31 December 2010
Directors:		
G Vance	**175,439**	175,439
I Ireland	**124,965**	105,000
F Devenny	**100,707**	79,853
I Grier	**45,243**	45,243
J McDermott	**9,000**	9,000
P Kelly Jnr	**2,401**	2,401
M Mc Nulty	**19,000**	19,000
M Robinson	**24,417**	24,417
L Tinney	**95,812**	95,812
N Witherow	**50,471**	38,721
G McClay	**12,107**	12,107
M Griffin	**15,000**	15,000
Frank Browne	**6,917**	6,917

All increases in shareholdings noted above represent purchases on the open market.

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 law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law and in accordance with ESM Rules the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2009.

The Group and Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and the Company. The Companies Acts 1963 to 2009 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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; 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.

Under applicable law and the requirements of the ESM Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those Rules.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009. They are also responsible 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.

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
Director

Ian Ireland
Director

12 April 2012

Independent auditor's report
to the members of Donegal Creameries plc

We have audited the group and parent company financial statements (''financial statements'') of Donegal Creameries plc for the year ended 31 December 2011 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 26.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you, in our opinion whether proper books of account have been kept by the company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of ESM regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review, at the request of the directors, whether the voluntary statement on pages 16 to 21 reflects the company's compliance with the nine provisions of the FRC UK Corporate Governance Code and that the Listing Rules of the Irish Stock Exchange specifies for review by auditors and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Managing Director's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditor's report continued
to the members of Donegal Creameries plc

Opinion
In our opinion:
- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the parent company's affairs as at 31 December 2011; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Other matters
We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

David Wilkinson
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
12 April 2012
Stokes Place,
St Stephens Green
Dublin 2

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	Pre-Exceptional €'000	2011 Except-ional* €'000	Total €'000	Restated** 2010 €'000
Continuing operations					
Revenue	6	69,612	-	69,612	61,307
Cost of sales		(50,646)	-	(50,646)	(44,329)
Gross profit		18,966	-	18,966	16,978
Distribution expenses		(8,346)	-	(8,346)	(7,066)
Administrative expenses		(7,671)	-	(7,671)	(6,603)
Other expenses	7	(6,050)	(901)	(6,951)	(3,542)
Loss from operating activities		(3,101)	(901)	(4,002)	(233)
Finance income		537	-	537	1,503
Finance expenses		(2,270)	-	(2,270)	(1,874)
Net finance expense	11	(1,733)	-	(1,733)	(371)
Share of profit of associates (net of tax)		1,656	-	1,656	3,755
(Loss)/profit before income tax		(3,178)	(901)	(4,079)	3,151
Income tax credit	12	1,129	-	1,129	458
(Loss)/profit from the year – continuing operations		(2,049)	(901)	(2,950)	3,609
Discontinued operations					
Loss from discontinued operations	13	(5,477)	576	(4,901)	(553)
(Loss)/profit for the year		(7,526)	(325)	(7,851)	3,056
Other comprehensive income					
Foreign currency translation differences for foreign operations				(60)	(124)
Currency translation adjustment in associate undertaking				281	205
Revaluation of property on reclassification to investment property	14			856	388
Tax on revaluation of property on reclassification to investment property	19			(257)	(97)
Reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense	11			(271)	(463)
Tax on reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense	19			81	106
Defined benefit plan actuarial (loss)/gain	27			(351)	179
Tax on defined benefit actuarial (loss)/gain	19			34	(29)
Total comprehensive income for the year				(7,538)	3,221

* Refer to Note 8 for further information in respect of exceptional costs.

** As represented to reflect the effect of discontinued operations – refer to Notes 13 and 23, for further information.

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 €'000	Restated 2010 €'000
(Loss)/profit attributable to:			
Equity holders of the Company		**(7,785)**	3,050
Non-controlling interest		**(66)**	6
		(7,851)	3,056
Total comprehensive income attributable to:			
Equity holders of the Company		**(7,483)**	3,201
Non-controlling interest		**(55)**	20
		(7,538)	3,221
(Loss)/earnings per share			
Basic (loss)/earnings per share (euro cent)	25		
Continuing		**(28.4c)**	35.5c
Discontinued		**(48.4c)**	(5.4c)
		(76.8c)	30.10c
Diluted (loss)/earnings per share (euro cent)	25		
Continuing		**(28.2c)**	34.6c
Discontinued		**(48.0c)**	(4.7c)
		(76.2c)	29.90c

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Geoffrey Vance
Director

Ian Ireland
Director

Consolidated statement of financial position
As at 31 December 2011

	Note	2011 €'000	2010 €'000
Assets			
Property, plant and equipment	14	**16,557**	18,094
Investment property	16	**25,833**	31,053
Goodwill	15	**3,633**	2,236
Intangible assets	15	**472**	424
Investment in associates	17	**18,503**	17,685
Other investments	18	**1,301**	1,671
Prepayment	21	**193**	194
Total non-current assets		**66,492**	71,357
Inventories	20	**5,069**	6,579
Trade and other receivables	21	**31,111**	36,397
Current tax		**46**	-
Assets held for sale	23	**16,705**	-
Total current assets		**52,931**	42,976
Total assets		**119,423**	114,333
Equity			
Share capital	24	**1,337**	1,337
Share premium	24	**2,975**	2,975
Other reserves	24	**1,408**	750
Retained earnings		**45,942**	55,667
Total equity attributable to equity holders of the Company		**51,662**	60,729
Non-controlling interest		**829**	914
Total equity		**52,491**	61,643
Liabilities			
Loans and borrowings	26	**17,593**	3,709
Trade and other payables	29	**992**	-
Derivatives	29	**1,709**	1,343
Employee benefits	27	**257**	528
Deferred tax liabilities	19	**4,087**	5,394
Total non-current liabilities		**24,638**	10,974
Trade and other payables	29	**19,301**	21,988
Bank overdraft	22	**12,200**	6,382
Loans and borrowings	26	**3,424**	13,108
Current tax		**-**	238
Liabilities held for sale	23	**7,369**	-
Total current liabilities		**42,294**	41,716
Total liabilities		**66,932**	52,690
Total equity and liabilities		**119,423**	114,333

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Geoffrey Vance
Director

Ian Ireland
Director

Company statement of financial position
As at 31 December 2011

	Note	2011 €'000	2010 €'000
Assets			
Property, plant and equipment	14	**3,299**	4,266
Investment property	16	**22,280**	26,243
Intangible assets	15	**28**	145
Investment in associates	17	**7,388**	8,507
Other investments	18	**5,772**	4,977
Total non-current assets		**38,767**	44,138
Inventories	20	**-**	2,103
Trade and other receivables	21	**11,991**	17,116
Assets held for sale		**6,286**	-
Current tax		**-**	182
Total current assets		**18,277**	19,401
Total assets		**57,044**	63,539
Equity			
Share capital	24	**1,337**	1,337
Share premium	24	**2,975**	2,975
Revaluation reserve	24	**616**	155
Share option reserve	24	**374**	335
Other reserves	24	**(159)**	(159)
Retained earnings		**8,196**	7,293
Total equity		**13,339**	11,936
Liabilities			
Loans and borrowings	26	**17,396**	3,699
Derivatives	29	**1,709**	1,343
Other trade payables	29	**4**	-
Employee benefits	27	**257**	528
Deferred tax liabilities	19	**3,011**	3,750
Total non-current liabilities		**22,377**	9,320
Trade and other payables	29	**8,363**	26,260
Bank overdraft	22	**8,332**	2,921
Loans and borrowings	26	**3,302**	13,102
Liabilities held for sale		**1,252**	-
Current tax		**79**	-
Total current liabilities		**21,328**	42,283
Total liabilities		**43,705**	51,603
Total equity and liabilities		**57,044**	63,539

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Geoffrey Vance
Director

Ian Ireland
Director

Consolidated statement of changes in equity
for the year ended 31 December 2011

	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 2011		1,337	2,975	(2,997)	(348)	3,570	190	335	55,667	60,729	914	61,643
Total comprehensive income for the year												
Loss for the year		-	-	-	-	-	-	-	(7,785)	(7,785)	(66)	(7,851)
Other comprehensive income												
Foreign currency translation differences for foreign operations		-	-	(71)	-	-	-	-	-	(71)	11	(60)
Currency translation adjustment in associate undertaking		-	-	281	-	-	-	-	-	281	-	281
Reclassification of previous gain on fair value of available for sale financial asset, net of tax		-	-	-	-	-	(190)	-	-	(190)	-	(190)
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	-	(317)	(317)	-	(317)
Revaluation of property on reclassification to investment property, net of tax		-	-	-	-	599	-	-	-	599	-	599
Other comprehensive income		-	-	210	-	599	(190)	-	(317)	302	11	313
Total comprehensive income for the year		-	-	210	-	599	(190)	-	(8,102)	(7,483)	(55)	(7,538)
Transactions with owners recorded directly in equity Contributions by and distributions to owners												
Dividends paid		-	-	-	-	-	-	-	(1,623)	(1,623)	(30)	(1,653)
Shared based payments	28	-	-	-	-	-	-	39	-	39	-	39
Total contributions by and distributions to owners		-	-	-	-	-	-	39	(1,623)	(1,584)	(30)	(1,614)
Balance at 31 December 2011		**1,337**	**2,975**	**(2,787)**	**(348)**	**4,169**	**-**	**374**	**45,942**	**51,662**	**829**	**52,491**

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity continued
for the year ended 31 December 2010

	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 2010		1,337	2,975	(3,064)	(348)	3,279	547	277	54,090	59,093	923	60,016
Total comprehensive income for the year												
Profit		-	-	-	-	-	-	-	3,050	3,050	6	3,056
Other comprehensive income												
Foreign currency translation differences for foreign operations		-	-	(138)	-	-	-	-	-	(138)	14	(124)
Currency translation adjustment in associate undertaking		-	-	205	-	-	-	-	-	205	-	205
Reclassification of previous gain on fair value of available for sale financial asset, net of tax		-	-	-	-	-	(357)	-	-	(357)	-	(357)
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	-	150	150	-	150
Revaluation of property on reclassification to investment property, net of tax		-	-	-	-	291	-	-	-	291	-	291
Other comprehensive income		-	-	67	-	291	(357)	-	150	151	14	165
Total comprehensive income for the year		-	-	67	-	291	(357)	-	3,200	3,201	20	3,221
Transactions with owners recorded directly in equity Contributions by and distributions to owners												
Dividends paid		-	-	-	-	-	-	-	(1,623)	(1,623)	(29)	(1,652)
Shared based payments	28	-	-	-	-	-	-	58	-	58	-	58
Total contributions by and distributions to owners		-	-	-	-	-	-	58	(1,623)	(1,565)	(29)	(1,594)
Balance at 31 December 2010		**1,337**	**2,975**	**(2,997)**	**(348)**	**3,570**	**190**	**335**	**55,667**	**60,729**	**914**	**61,643**

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Company statement of changes in equity
for the year ended 31 December 2011

	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 2010		1,337	2,975	(348)	189	155	277	11,727	16,312
Loss for the year		-	-	-	-	-	-	(2,961)	(2,961)
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	150	150
Total comprehensive income for the year		1,337	2,975	(348)	189	155	277	8,916	13,501
Dividends to equity holders		-	-	-	-	-	-	(1,623)	(1,623)
Share-based payments	28	-	-	-	-	-	58	-	58
Balance at 31 December 2010		1,337	2,975	(348)	189	155	335	7,293	11,936
Profit for the year		-	-	-	-	-	-	2,843	2,843
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	(317)	(317)
Revaluation of property on reclassification to investment property, net of tax		-	-	-	-	461	-	-	461
Total comprehensive income for the year		**1,337**	**2,975**	**(348)**	**189**	**616**	**335**	**9,819**	**14,923**
Dividends to equity holders		-	-	-	-	-	-	(1,623)	(1,623)
Share-based payments	28	-	-	-	-	-	39	-	39
Balance at 31 December 2011		**1,337**	**2,975**	**(348)**	**189**	**616**	**374**	**8,196**	**13,339**

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2011

	Note	2011 €'000	2010 €'000
Cash flows from operating activities			
(Loss)/profit for the period		**(7,851)**	3,056
Adjustments for:			
Depreciation	14	**2,345**	2,330
Amortisation of intangibles	15	**81**	158
Non-cash defined benefit scheme settlement gain	27	**(576)**	-
Change in fair value of investment property	16	**6,738**	4,191
Defined benefit pension scheme charge		**176**	139
Net finance expense		**1,733**	337
Share of profit of associates		**(1,656)**	(3,755)
Gain on sale of property, plant and equipment	7	**(23)**	(30)
Equity-settled share-based payment transactions	28	**39**	58
Income tax credit		**(1,129)**	(390)
Change in inventories		**(1,424)**	(842)
Change in trade and other receivables		**(2,787)**	(7,417)
Change in trade and other payables		**3,614**	4,296
		(720)	2,131
Interest paid		**(1,029)**	(662)
Defined benefit pension contributions paid		**(271)**	(221)
Income tax paid		**(318)**	(409)
Net cash from operating activities		**(2,338)**	839
Cash flows from investing activities			
Interest received		**58**	127
Dividends received		**26**	3
Proceeds from sale of property, plant and equipment		**90**	70
Proceeds from repayment of loan stock in associate	17	**780**	780
Acquisition of subsidiaries		**(4,448)**	-
Deferred consideration payable on acquisition of subsidiary		**-**	(184)
Acquisition of property, plant and equipment		**(2,273)**	(2,323)
Acquisition of intangibles		**(99)**	(107)
Acquisition of other investments	18	**-**	(404)
Net cash used in investing activities		**(5,866)**	(2,038)
Cash flows from financing activities			
Drawdown of borrowings		**6,000**	-
Repayment of borrowings		**(2,102)**	(3,342)
Payment of finance lease liabilities		**(47)**	(10)
Dividend paid to non-controlling interest		**(30)**	(29)
Dividends paid	24	**(1,623)**	(1,623)
Net cashflow from financing activities		**2,198**	(5,004)
Net decrease in cash and cash equivalents		**(6,006)**	(6,203)
Cash and cash equivalents at 1 January		**(6,382)**	(339)
Effect of exchange rate fluctuations on cash held		**188**	160
Cash and cash equivalents at 31 December	22	**(12,200)**	(6,382)

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Company statement of cash flows
for the year ended 31 December 2011

	Note	2011 €'000	2010 €'000
Cash flows from operating activities			
Profit/(loss) for the year		**2,843**	(2,961)
Adjustments for:			
Depreciation	14	**316**	370
Amortisation	15	**37**	74
Non-cash defined benefit scheme settlement gain	27	**(576)**	-
Change in fair value of investment property	16	**5,201**	3,166
Net finance (income)/expense		**(10,765)**	160
Gain on sale of property, plant and equipment		**-**	(8)
Equity-settled share-based payment transactions	28	**39**	58
Income tax expense		**(973)**	(723)
Defined benefit pension scheme charge		**176**	139
Change in inventories		**497**	107
Change in trade and other receivables		**2,268**	(3,266)
Change in trade and other payables		**(18,290)**	1,584
		(19,227)	(1,300)
Interest paid		**(1,029)**	(534)
Defined benefit pension scheme contribution		**(271)**	(221)
Income tax paid		**(2)**	(360)
Net cash from operating activities		**(20,529)**	(2,415)
Cash flows from investing activities			
Interest received		**96**	74
Dividend received		**12,024**	563
Proceeds from sale of property, plant and equipment		**-**	26
Proceeds from repayment of loan in associate	17	**780**	780
Acquisition of property, plant and equipment		**(57)**	(72)
Acquisition of other investments	18	**-**	(404)
Net cash used in investing activities		**12,843**	967
Cash flows from financing activities			
Drawdown of borrowings		**6,000**	-
Repayment of borrowings		**(2,102)**	(3,342)
Dividends paid	24	**(1,623)**	(1,623)
Net cashflow from financing activities		**2,275**	(4,965)
Net decrease in cash and cash equivalents		**(5,411)**	(6,413)
Cash and cash equivalents at 1 January		**(2,921)**	3,492
Cash and cash equivalents at 31 December	22	**(8,332)**	(2,921)

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Donegal Creameries 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 year ended 31 December 2011 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 management and distribution of milk and agricultural inputs, the development and sale of produce and the development and sale of property.

The consolidated and Company financial statements were authorised for issuance on 12 April 2012.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2011 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 Acts 1963 to 2009, which permits a Company that publishes its consolidated and Company financial statements together to take advantage of the exemption in Section 148(8) of the Companies Act, 1963 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 December 2011.

(b) Basis of preparation

The financial statements are presented in euro, which is the Group'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, defined benefit obligation and investment property.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with EU IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

(d) Changes in accounting policies

As of 1 January 2011, the Group has changed its accounting policies in the following areas which do not have a material effect on the results or financial position of the Group:

- IFRIC 19, " Extinguishing Financial Liabilities with Equity Instruments";
- Amendments to IFRIC 14, " Prepayments of a Minimum Funding Requirement";
- Amendments to IAS 32, "Financial instruments: Presentation on classification of rights issues"
- Amendments to IAS 24, "Related Party Disclosures"; and
- The IASB's third annual improvement project, "Improvements to IFAS (Issued 2010).

Notes to the consolidated financial statements continued

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 the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

(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.

(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(m).

3. Significant accounting policies continued

(c) Financial instruments continued

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. 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.

(d) Share capital

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.

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, is net of any tax effects, and 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/from retained earnings.

(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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(e) Property, plant and equipment continued

(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
• fixtures and fittings	4 years
• tanks	6 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 is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, 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 preexisting 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.

Acquisitions prior to 1 January 2006

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2006. In respect of acquisitions prior to 1 January 2006 goodwill represents the amount recognised under the Group's previous accounting framework, Irish GAAP.

Acquisitions on or after 1 January 2006 to 31 December 2009

For acquisitions on or after 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

3. Significant accounting policies continued

(f) Intangible assets 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

(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 valuation, company having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio annually.

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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(h) Impairment continued

(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.

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

(i) 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.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. The Group recognises all actuarial gains and losses arising from defined benefit plans immediately.

(iii) Equity settled share-based payment transactions

The grant date fair value of equity settled options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest as a result of failure to meet the related service and non-market conditions.

3. Significant accounting policies continued

(j) 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.

(k) 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.

(l) 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.

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.

(m) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale debt securities), dividend income, the expected return on defined benefit pension assets, 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 as it accrues 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.

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

Foreign currency gains and losses are reported on a net basis.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(n) 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 year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

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.

(o) 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.

(p) 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 operations 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 represented as if the operation had been discontinued from the start of the comparative period.

(q) 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.

3. Significant accounting policies continued

(r) 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.

(s) 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 Comprehensive Income and results for the year. 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 Comprehensive Income and notes to the Group Financial Statements as exceptional items. Exceptional items are included within the Income Statement caption to which they relate and are separately disclosed in the notes to the Group Financial Statements.

(t) New standards and interpretations not yet adopted

We have considered all EU endorsed IFRS standards, amendments to these standards, IFRIC interpretations that have been issued, but which are not yet effective, and have not been early adopted in these financial statements, as follows:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets[1]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2012

The above new or revised standards and interpretations will be adopted in future financial statements, if applicable. The group does not anticipate that the adoption of these new or revised standards and interpretations will have a material impact on the group's overall results from operation and financial position.

Notes to the consolidated financial statements continued

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

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually. 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 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.

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. A yield that reflects the specific risks inherent in the net cash flows then is 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 other information available at the reporting date.

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

The fair value of trade, other receivables and 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, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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.

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 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 December 2011 the Group had committed bank facilities of €32.9 million, including an overdraft facility of €12.5 million 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.

Notes to the consolidated financial statements continued

5. Financial risk management continued

At times, the Group buys forward contracts in order to manage market risks although the use of such instruments is limited. All such transactions are carried out within the guidelines set by the Audit Committee.

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 and no derivatives are entered into.

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 €54.1 million at 31 December 2011 (2010: €63.2 million).

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 monitors 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 monitors the level of dividends to ordinary shareholders.

From time to time the Group 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 year. 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:

- Dairy: The assembly, processing and distribution of liquid milk and the production, distribution and marketing of added value dairy products including the Rumblers brand.
- Agri-inputs: The manufacture, sale and distribution of farm inputs.
- Produce: The future growth, sales and distribution of seed potatoes and organic produce.
- Property and investments: Includes the rental, development and sale of property assets.
- Other operations: Includes the stevedoring business and corporate activity.

6. Segment reporting continued

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.

Group

	Dairy		Agri-inputs		Produce		Property/other investments		Other		Consolidated	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Total revenues	**60,592**	58,481	**43,890**	39,688	**32,294**	26,501	**-**	-	**1,283**	1,519	**138,059**	126,189
Less : Revenue from discontinued operations (note 13)	**(52,272)**	(50,313)	**(16,175)**	(14,569)	**-**	-	**-**	-	**-**	-	**(68,447)**	(64,882)
Revenue – continuing operations	**8,320**	8,168	**27,715**	25,119	**32,294**	26,501	**-**	-	**1,283**	1,519	**69,612**	61,307
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Segment result before exceptional items	**(6,234)**	20	**566**	583	**3,415**	2,572	**(6,641)**	(4,002)	**531**	272	**(8,363)**	(555)
Add: segmental loss from discontinued operations	**4,814**	105	**663**	414	**-**	-	**-**	-	**-**	-	**5,477**	519
Segmental result from continuing operations before exceptional items	**(1,420)**	125	**1,229**	997	**3,415**	2,572	**(6,641)**	(4,002)	**531**	272	**(2,886)**	(36)
Exceptional items											**(901)**	-
Share of results of associates											**1,656**	3,755
Net finance costs											**(1,733)**	(371)
Income tax benefit											**1,129**	458
Share option benefits											**(39)**	(58)
Current pension service cost											**(176)**	(139)
(Loss)/profit for the year – continuing operations											**(2,950)**	3,609

Notes to the consolidated financial statements continued

6. Segment reporting continued

Geographical segments continued

	Dairy		Agri-inputs		Produce		Property/other investments		Other		Consolidated	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Segment assets	**7,613**	18,598	**20,547**	26,560	**26,547**	17,795	**28,525**	32,730	**983**	965	**84,215**	96,648
Investments in associates	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**18,503**	17,685
Assets held for sale	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**16,705**	-
Total assets as reported in Group Balance Sheet	**7,613**	18,598	**20,547**	26,560	**26,547**	17,795	**28,525**	32,730	**983**	965	**119,423**	114,333
Segment liabilities	**2,106**	6,945	**7,095**	7,694	**12,467**	8,386	**9**	100	**325**	444	**22,002**	23,569
Liabilities held for sale	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**7,369**	-
Bank overdraft (unallocated)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**12,200**	6,382
Loans and borrowings (unallocated)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**21,017**	16,817
Deferred tax (unallocated)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**4,087**	5,394
Employee benefits (unallocated)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**257**	528
Total liabilities as reported in Group Balance Sheet	**2,106**	6,945	**7,095**	7,694	**12,467**	8,386	**9**	100	**325**	444	**66,932**	52,690
Continuing operations												
Capital expenditure	**720**	271	**436**	238	**470**	214	**-**	-	**178**	27	**1,804**	750
Depreciation and amortisation	**246**	925	**723**	1,054	**290**	213	**-**	-	**40**	25	**1,299**	2,217
Change in fair value of investment property and other assets	**-**	-	**-**	-	**-**	-	**7,108**	5,035	**-**	-	**7,108**	5,035
Discontinued operations												
Capital expenditure	**919**	1,607	**17**	73		-	**-**	-		-	**936**	1,680
Depreciation and amortisation	**863**	825	**263**	273		-	**-**	-		-	**1,126**	1,098

	Island of Ireland		Europe		Rest of world		Consolidated	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Total revenue from external customers	**133,092**	121,734	**4,811**	4,039	**156**	416	**138,059**	126,189
Segment assets as reported in Group Balance Sheet	**109,849**	112,526	**8,540**	1,142	**1,034**	665	**119,423**	114,333
Capital expenditure	**1,916**	2,289	**808**	90	**16**	51	**2,740**	2,430

7. Other (expenses)/income - continuing operations

	2011 €'000	Restated 2010 €'000
Income from investment property rentals	**665**	625
Profit on disposal of property, plant and equipment	**23**	24
	688	649
Change in fair value of investment property	**(6,738)**	(4,191)
	(6,050)	(3,542)

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 Income Statement caption to which they relate and are separately disclosed in the notes to the Group Financial Statements.

The Group reports the following exceptional items:

		2011 €'000	2010 Restated €'000
Restructuring costs	a	**(344)**	-
Cost of disposal of discontinued operations	b	**(458)**	-
Non-cash defined benefit scheme settlement gain	c	**576**	-
Costs of acquisition	d	**(99)**	
		(325)	-

a) Restructuring costs include redundancy costs, legal, accounting and taxation advice in respect of costs associated with restructuring the Group in advance of the sale of the liquid & trade milk business and agri-stores business.

b) Costs of disposal of discontinued operations include legal, accounting & taxation advice and broker fees in respect of the sale of the liquid & trade milk business and agri-stores business.

c) A curtailment gain of €0.58m was recognised in discontinued activities in respect of the Groups defined benefit pension scheme which relates to the employees who became deferred members at the year end as a results of the sale of the liquid & trade milk business and agri-stores business.

d) Costs of acquisition include legal advice in respect of the purchase of business combinations during 2011.

9. Personnel expenses

Group

Employees

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

	2011 Number	2010 Number
Production	**160**	142
Stores	**66**	75
Transport	**38**	38
Administration	**86**	72
	350	327

Included in total employees above are employees who are employed in discontinued activities totalling 153 at the year end (2010:153).

Notes to the consolidated financial statements continued

9. Personnel expenses continued

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

	2011 Total €'000	2010 €'000
Wages and salaries	**11,179**	10,281
Social welfare costs	**1,296**	1,195
Pension costs (note 27)	**484**	447
Share option benefits (note 28)	**39**	58
	12,998	11,981

Included in total staff costs figures above are staff costs for discontinued activities totalling €5.6m in 2011 (2010: €5m).

Company

Employees

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

	Total 2011 Number	2010 Number
Stores (discontinued)	**45**	45
Administration	**20**	20
	65	65

Included in total employees above are employees who are employed in discontinued activities totalling 48 at the yearend (2010: 48).

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

	Total 2011 €'000	2010 €'000
Wages and salaries	**2,009**	2,232
Social welfare costs	**385**	369
Pension costs	**308**	264
Share option benefits	**39**	58
	2,741	2,923

Included in total staff costs figures above are staff costs for discontinued activities totalling €1.06m in 2011 (2010: €1.07m).

10. Statutory and other information

	2011 €'000	2010 €'000
The (loss)/profit for the year has been arrived at after charging/(crediting) the following amounts:		
Depreciation	**2,345**	2,330
Auditor's remuneration:		
- audit fees	**108**	108
- taxation services	**39**	39
- other non audit services	**110**	-
Amortisation of prepayments	**1**	1
Amortisation of intangible assets	**81**	158
Impairment of loan to associate	**379**	-
Impairment of available for sale investment	**370**	844

Amounts paid to directors are disclosed in the report of the Remuneration Committee on pages 22 to 25.

11. Finance income and expense – continuing operations

	2011 €'000	Restated 2010 €'000
Recognised in profit or loss		
Interest income on bank deposits	**65**	121
Interest income on associate loan stock	**40**	38
Net foreign exchange gain	**209**	804
Expected rate of return on pension scheme assets	**197**	175
Dividends received	**26**	3
Interest charged on trade receivables	**-**	2
Reversal of impairment loss on trade receivables	**-**	2
Reversal of impairment of loan to associate	**-**	358
Finance income	**537**	1,503
Interest expense on bank loans and overdraft	**(1,106)**	(631)
Impairment of loan to associate	**(379)**	-
Change in fair value of option granted over investments	**(366)**	(533)
Interest on pension scheme liabilities	**(195)**	(191)
Impairment loss on trade receivables	**(125)**	(138)
Reclassification of previous gain on fair value of available for sale financial asset – transfer from other comprehensive income	**271**	463
Impairment of available for sale investment	**(370)**	(844)
Finance expense	**(2,270)**	(1,874)
Net finance expense recognised in profit or loss	**(1,733)**	(371)

Recognised directly in other comprehensive income

	2011 €'000	2010 €'000
Foreign currency translation differences for foreign operations	**281**	(124)
Reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense	**(271)**	(463)
Income tax on finance income and expense recognised directly in other comprehensive income	**81**	106
Finance expense recognised in other comprehensive income,net of tax	**91**	(481)
Finance income recognised in other comprehensive income, net of tax		
Recognised in:		
Fair value reserve	**(190)**	(357)
Translation reserve	**281**	(124)
	91	(481)

Notes to the consolidated financial statements continued

12. Income tax credit – continuing operations

	2011 €'000	Restated 2010 €'000
Current tax expense		
Current year	11	528
Adjustment for prior years	70	(220)
	81	308
Deferred tax expense		
Origination and reversal of temporary differences	(1,690)	(766)
Change in tax rate	480	-
	(1,210)	(766)
Income tax credit excluding share of income tax of associates	(1,129)	(458)

In Ireland the CGT rate applicable to the disposal of certain capital assets increased from 25% to 30% with effect from 7 December 2011. As this rate is enacted at the balance sheet date, the deferred tax assets and liabilities relating to certain assets has been calculated using this rate.

There have been a number of proposed changes to the UK corporation tax rate announced in recent times. The rate enacted at the balance sheet date was 25% and so deferred tax assets and liabilities relating to the UK businesses have been calculated using this rate.

Tax reconciliation

	2011 €'000	Restated 2010 €'000
(Loss)/profit for year before tax – continuing activities	(4,079)	3,151
Adjustment for share of profit of associates	(1,601)	(3,755)
Loss for year before tax, excluding share of profit of associates	(5,680)	(604)
Tax at 12.5% (2010: 12.5%)	(710)	(75)
Depreciation in excess of capital allowances	60	91
Expenses not allowable for tax purposes	905	247
Passive income taxed at higher rate	40	45
Adjustment for capital gains tax	15	-
Deductions allowable for tax	(1,399)	(535)
Profit on sale of assets	(23)	(4)
Adjustment for prior periods	(70)	(220)
Origination and reversal of temporary differences	53	(7)
Income tax benefit	(1,129)	(458)

Income tax recognised directly in other comprehensive income

		2011 €'000	2010 €'000
Revaluation of property, plant and equipment before transfer to investment property		257	97
Available-for-sale financial assets		(81)	(106)
Actuarial gains		(34)	29
Total income tax recognised directly in other comprehensive income	19	142	20

13. Discontinued operations

On 13 January 2012 and upon receipt of Competition Authority approval, the Group completed a sale agreement to dispose of liquid and trade milk business and agri stores business. The proceeds of sale substantially exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognised on the reclassification of these operations as held for sale. The disposal was completed on 13 January 2012, on which date control of the liquid and trade milk business and agri stores business passed to the acquirer. Details of the assets and liabilities disposed of, and the estimate of the profit on disposal, are disclosed in note 23.

The revenue, results and cashflows of the Group's discontinued operations (liquid and trade milk business and agri stores business) were as follows:

	2011 €'000	2010 €'000
Revenue	**68,477**	64,882
Cost of sales	**(64,658)**	(58,945)
Gross profit	**3,819**	5,937
Distribution expenses	**(2,553)**	(2,161)
Administration expenses	**(4,341)**	(4,301)
Other expenses	**2**	6
Loss from operating activities	**(3,073)**	(519)
Finance income	**254**	46
Finance expenses	**(2,839)**	(12)
Net finance (expense)/income	**(2,585)**	34
Loss before income tax	**(5,658)**	(485)
Income tax credit/(expense)	**181**	(68)
Loss for the year from discontinued activities	**(5,477)**	(553)
Loss for the year	**(5,477)**	(553)
Adjustments for:		
Depreciation	**1,104**	1,068
Amortisation of intangibles	**34**	30
Net finance expense/(income)	**2,585**	(34)
Gain on sale of property, plant & Equipment	**(2)**	(6)
Income tax (credit)/expense	**(181)**	68
Changes in inventory	**798**	(80)
Changes in trade & other receivables	**19,809**	(4,126)
Changes in trade & other payables	**(5,880)**	5,505
Defined benefit pension contributions paid	**(203)**	(203)
Net cash from operating activities	**12,587**	1,669
Cashflows from investing activities		
Proceeds from sale of property, plant & equipment	**2**	14
Acquisition of property, plant & equipment	**(652)**	(1,621)
Acquisition of intangibles	**-**	(59)
Net cash used in investing activities	**(650)**	(1,666)
Net increase in cash & cash equivalents	**11,937**	3

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Group	Land and buildings €'000	Plant and equip-ment €'000	Fixtures and fittings €'000	Motor vehicles & tanks €'000	Total €'000
Cost or deemed cost					
Balance at 1 January 2010	14,430	19,885	3,027	4,000	41,342
Additions	33	1,713	178	399	2,323
Reclassification from investment property (note 16)	2,628	-	-	-	2,628
Reclassification to investment property (note 16)	(920)	-	-	-	(920)
Revaluation on reclassification to investment property	388	-	-	-	388
Disposals	-	(11)	(12)	(373)	(396)
Effect of movements in exchange rates	41	21	24	7	93
Balance at 31 December 2010	16,600	21,608	3,217	4,033	45,458
Balance at 1 January 2011	16,600	21,608	3,217	4,033	45,458
Additions	479	1,080	821	261	2,641
On acquisition (note 31)	1,311	1,266	29	49	2,655
Reclassification to investment property	(2,879)	-	-	-	(2,879)
Revaluation on reclassification to investment property	856	-	-	-	856
Group reorganisation	(154)	(1,962)	(5)	(10)	(2,131)
Disposals	(690)	(76)	(40)	(323)	(1,129)
Effect of movements in exchange rates	50	75	6	-	131
To assets held for sale (note 23)	(2,838)	(9,419)	(1,602)	(2,554)	(16,413)
Balance at 31 December 2011	**12,735**	**12,572**	**2,426**	**1,456**	**29,189**
Depreciation and impairment losses					
Balance at 1 January 2010	4,380	15,683	2,256	3,023	25,342
Depreciation for the year	450	1,145	292	443	2,330
Disposals	-	(5)	(8)	(343)	(356)
Effect of movements in exchange rates	9	20	14	5	48
Balance at 31 December 2010	4,839	16,843	2,554	3,128	27,364
Balance at 1 January 2011	4,839	16,843	2,554	3,128	27,364
Depreciation for the year	486	1,126	367	366	2,345
Disposals	(539)	(76)	(15)	(264)	(894)
Group reorganisation	(154)	(1,962)	(5)	(10)	(2,131)
Reclassification to investment property	(1,373)	-	-	-	(1,373)
Effect of movements in exchange rates	5	14	7	3	29
To assets held for sale (note 23)	(1,312)	(7,717)	(1,403)	(2,276)	(12,708)
Balance at 31 December 2011	**1,952**	**8,228**	**1,505**	**947**	**12,632**
Carrying amounts					
At 1 January 2010	10,050	4,202	771	977	16,000
At 31 December 2010	11,761	4,765	663	905	18,094
At 1 January 2011	11,761	4,765	663	905	18,094
At 31 December 2011	**10,783**	**4,344**	**921**	**509**	**16,557**

14. Property, plant and equipment continued

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 26). At 31 December 2011 the net carrying amount of leased plant and machinery was €448,000 (2010: €10,000). Depreciation on leased plant and machinery was €30,000 (2010: €13,000).

Transfer to investment property

Part of a property in Donegal included in property, plant and equipment at 31 December 2009 was revalued to €920,000 and transferred to investment property during the year ended 31 December 2010.

On foot of the disposal of businesses, see note 13, nine properties included in property, plant and equipment at 31 December 2010 were revalued to €1,506,000 and transferred to investment property at 31 December 2011.

Transfer from investment property

Part of an investment property held as at 31 December 2009 was transferred to property, plant & equipment at €2,628,000 on 30 June 2010 at the then market value, as it was used in operations of the Group from that date.

Land assets

The carrying value of land not subject to depreciation at 31 December 2011 was €4.8 million (2010: €3.7 million).

Transfer to assets held for sale

As a results of the post year end sale of liquid and trade milk business and agri stores business, property, plant & equipment totalling €3,708,000 was transferred to assets held for sale at the year end.

Group reorganisation

Group reorganisation represents transfer of assets between group companies at net book value in advance of a disposal of group operations.

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

	Land and buildings €'000	Plant and equip-ment €'000	Fixtures and fittings €'000	Motor vehicles €'000	Total €'000
Company					
Cost or deemed cost					
Balance at 1 January 2010	2,783	623	1,767	619	5,792
Additions	12	20	4	36	72
Transfer from investment property	2,628	-	-	-	2,628
Transfer to group company	-	(46)	-	-	(46)
Disposals	-	(1)	-	(99)	(100)
Balance at 31 December 2010	5,423	596	1,771	556	8,346
Balance at 1 January 2011	5,423	596	1,771	556	8,346
Additions	3	11	-	4	18
Reclassification to investment property	(2,386)	-	-	-	(2,386)
Revaluation on reclassification to investment property	719	-	-	-	719
To assets held for sale	-	(161)	(613)	(356)	(1,130)
Disposals	-	-	-	(29)	(29)
Balance at 31 December 2011	**3,759**	**446**	**1,158**	**175**	**5,538**
Depreciation and impairment losses					
Balance at 1 January 2010	1,423	477	1,407	491	3,798
Depreciation for the year	150	17	151	52	370
Transfer to group company	-	(6)	-	-	(6)
Disposals	-	(1)	-	(81)	(82)
Balance at 31 December 2010	1,573	487	1,558	462	4,080
Balance at 1 January 2011	1,573	487	1,558	462	4,080
Depreciation for the year	160	15	112	29	316
Reclassification to investment property	(1,148)	-	-	-	(1,148)
To assets held for sale	-	(139)	(512)	(336)	(987)
Disposals	-	-	-	(22)	(22)
Balance at 31 December 2011	**585**	**363**	**1,158**	**133**	**2,239**
Carrying amounts					
At 1 January 2010	1,360	146	360	128	1,994
At 31 December 2010	3,850	109	213	94	4,266
At 1 January 2011	3,850	109	213	94	4,266
At 31 December 2011	**3,174**	**83**	**-**	**42**	**3,299**

The carrying value of land not subject to depreciation at 31 December 2011 was €2.8million (2010: €2.8 million). The Company holds no finance leases (2010: Nil).

15. Intangible assets – Group

	Goodwill €'000	Software €'000	Acquisition related intangibles €'000	Total €'000
Cost				
Balance at 1 January 2010	3,378	555	39	3,972
Additions	-	107	-	107
Arising on deferred consideration	40	-	-	40
Disposal	-	(1)	-	(1)
Translation adjustment	-	5	-	5
Balance at 31 December 2010	3,418	666	39	4,123
Balance at 1 January 2011	3,418	666	39	4,123
Additions	-	99	-	99
Arising on acquisition	2,272	-	272	2,544
To assets held for sale (note 23)	(875)	(478)	-	(1,353)
Translation adjustment	-	(1)	-	(1)
Balance at 31 December 2011	**4,815**	**286**	**311**	**5,412**
Amortisation and impairment losses				
Balance at 1 January 2010	1,182	123	-	1,305
Amortisation for the year	-	157	1	158
Balance at 31 December 2010	1,182	280	1	1,463
Balance at 1 January 2011	1,182	280	1	1,463
Amortisation for the year	-	80	1	81
To assets held for sale (note 23)	-	(237)	-	(237)
Balance at 31 December 2011	**1,182**	**123**	**2**	**1,307**
Carrying amounts				
At 1 January 2010	2,196	432	39	2,667
At 31 December 2010	2,236	386	38	2,660
At 1 January 2011	2,236	386	38	2,660
At 31 December 2011	**3,633**	**163**	**309**	**4,105**

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

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

Notes to the consolidated financial statements continued

15. Intangible assets – Group continued

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.

	2011			2010		
	Dairy €'000	Agribusiness €'000	Produce €'000	Dairy €'000	Agribusiness €'000	Produce €'000
Goodwill at 1 January	**1,172**	**1,000**	**64**	1,132	1,000	64
Additions	**1,772**	**-**	**500**	40	-	-
Impairment	**-**	**-**	**-**	-	-	-
To assets held for sale	**(875)**	**-**	**-**	-	-	-
Goodwill at 31 December	**2,069**	**1,000**	**564**	1,172	1,000	64

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.

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

- Forecasted sales and cashflows are based on management approved budgets for 2011 projected forward for an additional five years with a terminal value, based on the year five cashflows used thereafter. Growth, estimated at 5%, 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 9%, 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 2011 as a result of this review (2010: Nil).

15. Intangible assets – Company

	Software €'000
Cost	
Balance at 1 January 2010	280
Additions	-
Balance at 31 December 2010	**280**
Balance at 1 January 2011	280
Additions	39
To assets held for sale	(244)
Balance at 31 December 2011	**75**
Amortisation and impairment losses	
Balance at 1 January 2010	61
Amortisation for the year	74
Balance at 31 December 2010	**135**
Balance at 1 January 2011	135
Amortisation for the year	37
To assets held for sale	(125)
Balance at 31 December 2011	**47**
Carrying amounts	
At 1 January 2010	219
At 31 December 2010	145
At 1 January 2011	145
At 31 December 2011	**28**

16. Investment property

Group	Note	2011 €'000	2010 €'000
Balance at 1 January		**31,053**	36,885
Change in fair value		**(6,738)**	(4,191)
Reclassification to property, plant and equipment	14	**-**	(2,628)
Reclassification from property, plant and equipment	14	**1,506**	920
Effect of movement in exchange rates		**12**	67
Balance at 31 December		**25,833**	31,053

Investment property includes the Grianan estate, student residences, the Oatfield building, the Bridgend property and development land in both Donegal and Northern Ireland.

Notes to the consolidated financial statements continued

16. Investment property continued

Company

		2011 €'000	2010 €'000
Balance at 1 January		**26,243**	32,037
Change in fair value		**(5,201)**	(3,166)
Reclassification to property plant and equipment	14	**-**	(2,628)
Reclassification from property, plant and equipment	14	**1,238**	-
Balance at 31 December		**22,280**	26,243

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.

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. A table showing the range of yields applied for each type of property is included below.

	2011 Yields	2010 Yields
Land	**1%-2%**	2%-3%
Student residences	**9%-10%**	6%-7%

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.

17. Investment in associates

Group

The Group's share of after tax profits in its associates for the year was €1,937,000 (2010: €3,960,000).

	2011 Interest in associate €'000	2011 Loans to associate €'000	2011 Total €'000	2010 Interest in associate €'000	2010 Loans to associate €'000	2010 Total €'000
Balance at 1 January	**14,441**	**3,244**	**17,685**	10,481	3,628	14,109
Share of increase in net assets after tax	**1,937**	**-**	**1,937**	3,960	-	3,960
Interest charged	**-**	**40**	**40**	-	38	38
Transfer to subsidiary	**-**	**-**	**-**	-	-	-
Repayment of loan stock in associate	**-**	**(780)**	**(780)**	-	(780)	(780)
Reversal of impairment of loan to associate	**-**	**-**	**-**	-	358	358
Impairment	**-**	**(379)**	**(379)**	-	-	-
Balance at 31 December	**16,378**	**2,125**	**18,503**	14,441	3,244	17,685

Investments in associates comprises primarily of Monaghan Middlebrook Mushrooms and also include North Western Livestock Holdings Limited and Leapgrange Limited.

17. Investment in associates continued

Monaghan Middlebrook Mushrooms (MMM) loan notes attract interest at market rates and are repayable over a five year period that commenced in February 2008. Loan repayments and interest charged in 2011 are included in the Group's interest in associates in the statement of financial position. The total loan notes and interest outstanding from MMM at 31 December 2011 is €1.2million (2010: €1.9million).

In 2007, the Group granted an option over 5% of Monaghan Middlebrook Mushrooms to the majority shareholder and a member of key management personnel of Monaghan Middlebrook Mushrooms exercisable if the company achieves certain performance criteria during the five year period to 31 December 2011. This option has been accounted for as a cash settled derivative and a liability of €1,709,000 (2010: €1,343,000) is recognised in derivatives in this regard.

During 2011, the Group recognised an impairment of €379,000 to the carrying value of loans to associates following a review of the recoverability of those assets (2010: net reversal of impairment €358,000). The impairment reversal is included within finance income and expenses.

The total loan notes and interest outstanding from North Western Livestock Holdings Limited at 31 December 2011 is €0.345m (2010: €0.484m). An impairment of €0.15m was recognised in respect of the loan in 2011 (2010: Nil).

At 31 December 2010, land held as investment property by associated companies was re-valued by an independent professional valuer, resulting in an impairment of €1,164,000 (2010: €481,600) attributable to the Group, which is included in the share of profit of associate in the statement of comprehensive income.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

2011	Total assets €'000	Total liabilities €'000	Profit/ (loss) €'000
Investments in associates	**181,215**	**130,590**	**8,102**

2010	Total assets €'000	Total liabilities €'000	Profit/ (loss) €'000
Investments in associates	134,850	92,638	11,596

Company	2011 Interest in associate €'000	2011 Loans to associate €'000	2011 Total €'000	2010 Interest in associate €'000	2010 Loans to associate €'000	2010 Total €'000
Balance at 1 January	**5,263**	**3,244**	**8,507**	5,263	3,628	8,891
Interest charged	**-**	**40**	**40**	-	38	38
Repayment of loan stock in associate	**-**	**(780)**	**(780)**	-	(780)	(780)
Reversal of impairment of loan to associate	**-**	**-**	**-**	-	358	358
Impairment	**-**	**(379)**	**(379)**	-	-	-
Balance at 31 December	**5,263**	**2,125**	**7,388**	5,263	3,244	8,507

The movements in the Company balance are explained above.

Notes to the consolidated financial statements continued

18. Other investments

	2011 €'000	2010 €'000
Group		
Non-current investments		
Available-for-sale equity investments	**1,301**	1,671

Available-for-sale equity investments include €48,700 quoted shares (2010: €48,700), prize bonds held of €100,000 (2010: €100,000) and €1,152,300 unquoted shares (2010: €1,522,500). Quoted shares have been stated at market value in the manner stated in Note 4. The fair value of unquoted shares with a carrying value of €1,152,300 (2010: €1,522,500) has been based upon recent market transactions. The directors' estimate of the fair value of the remaining unquoted shares is not significantly different from their cost, being their carrying value.

	2011 €'000	2010 €'000
Movement during the year		
Balance at 1 January	**1,671**	2,111
Impairment of available for sale financial assets	**(370)**	(844)
Additions in the year	**-**	404
Balance at 31 December	**1,301**	1,671

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 30.

	2011 €'000	2010 €'000
Company		
Non-current investments		
Available-for-sale financial assets	**1,274**	287
Investments in subsidiaries	**4,498**	4,690
	5,772	4,977

	2011 Available-for-sale investments €'000	2011 Investments in subsidiaries €'000	2011 Total €'000	2010 Available-for-sale investments €'000	2010 Investments in subsidiaries €'000	2010 Total €'000
Movement during the year						
Balance at 1 January	**287**	**4,690**	**4,977**	184	4,790	4,974
Addition of available - for-sale financial assets	**1,357**	**-**	**1,357**	404	-	404
Revaluation of available - for-sale financial assets	**(370)**	**-**	**(370)**	-	-	-
Impairment	**-**	**(65)**	**(65)**	(301)	(100)	(401)
To assets held for sale	**-**	**(127)**	**(127)**	-	-	-
Balance at 31 December	**1,274**	**4,498**	**5,772**	287	4,690	4,977

Available-for-sale equity investments include €49,000 quoted shares (2010: €49,000), prize bonds held of €100,000 (2010: €100,000) and €1,125,000 unquoted shares (2010: €138,000). Additions in the current year reflect a purchase from a group company. Quoted shares have been stated at market value in the manner stated in Note 4. The director's estimate of the fair value of the remaining unquoted shares is not significantly different from their cost, being their carrying value.

19. Deferred tax assets and liabilities

Group

Unrecognised deferred tax assets

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

	2011 €'000	2010 €'000
Tax losses	**1,793**	1,619

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 therefrom.

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Property, plant and equipment	**-**	-	**(997)**	(1,270)	**(997)**	(1,270)
Investment property	**-**	-	**(3,342)**	(4,139)	**(3,342)**	(4,139)
Available-for-sale financial assets	**105**	-	**-**	(93)	**105**	(93)
Employee benefit plans	**100**	66	**-**	-	**100**	66
Share-based payments	**47**	42	**-**	-	**47**	42
Deferred tax assets/(liabilities)	**252**	108	**(4,339)**	(5,502)	**(4,087)**	(5,394)
Set off of tax	**(252)**	(108)	**252**	108	**-**	-
Net deferred tax liabilities	**-**	-	**(4,087)**	(5,394)	**(4,087)**	(5,394)

Company

Unrecognised deferred tax assets

The Company had no unrecognised deferred tax assets or liabilities at 31 December 2011 (2010: €Nil).

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Property, plant and equipment	**-**	-	**(628)**	(610)	**(628)**	(610)
Investment property	**-**	-	**(2,632)**	(3,245)	**(2,632)**	(3,245)
Available for sale financial asset	**102**	-	**-**	(3)	**102**	(3)
Employee benefits	**100**	42	**-**	-	**100**	42
Share-based payments	**47**	66	**-**	-	**47**	66
Deferred tax assets/(liabilities)	**249**	108	**(3,260)**	(3,858)	**(3,011)**	(3,750)
Set off of tax	**(249)**	(108)	**249**	108	**-**	-
Net tax liabilities	**-**	-	**(3,011)**	(3,750)	**(3,011)**	(3,750)

Notes to the consolidated financial statements continued

19. Deferred tax assets and liabilities continued

Group

	Balance 1 Jan 10 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance 31 Dec 10 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Other €'000	Balance at 31 Dec 11 €'000
Property, plant and equipment	(849)	(421)	-	**(1,270)**	34	-	239	**(997)**
Investment property	(5,178)	1,136	(97)	**(4,139)**	1,054	(257)	-	**(3,342)**
Available-for-sale financial assets	(204)	5	106	**(93)**	117	81	-	**105**
Employee benefit plans	95	-	(29)	**66**	-	34	-	**100**
Share based payment	35	7	-	**42**	5	-	-	**47**
Tax losses carried forward	10	(10)	-	**-**	-	-	-	**-**
	(6,091)	717	(20)	**(5,394)**	1,210	(142)	239	**(4,087)**

See also note 23 in respect of assets held for sale.

Company

	Balance 1 Jan 10 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance 31 Dec 10 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Other €'000	Balance at 31 Dec 11 €'000
Property, plant and equipment	(132)	(478)	-	**(610)**	(27)	-	9	**(628)**
Investment property	(4,456)	1,211	-	**(3,245)**	870	(257)	-	**(2,632)**
Available for sale financial asset	9	(12)	-	**(3)**	105	-	-	**102**
Employee benefit plans	95	-	(29)	**66**	-	34	-	**100**
Share based payments	35	7	-	**42**	5	-	-	**47**
	(4,449)	728	(29)	**(3,750)**	953	(223)	9	**(3,011)**

20. Inventories

Group

	2011 €'000	2010 €'000
Dairy	**62**	88
Stores including animal feeds	**1,931**	4,927
Packaging and other stocks	**2,304**	1,452
Biological assets	**772**	112
	5,069	6,579

See also note 23 in respect of assets held for sale.

Inventories impairment	2011 €'000	2010 €'000
Balance at 1 January	**345**	223
Impairment	**-**	122
To assets held for sale	**(245)**	-
Balance at 31 December	**100**	345

In 2011, the impairment of inventories to net realisable value amounted to €Nil (2010: €122,000). The impairment is included in cost of sales. Total inventory costs of €113,991,000 (2010: €94,500,000) were charged to the statement of comprehensive income.

20. Inventories continued

Company

	2011 €'000	2010 €'000
Stores including animal feeds	-	2,097
Other stocks	-	6
	-	2,103

Inventories impairment provision

	2011 €'000	2010 €'000
Balance at 1 January	168	162
Impairment	-	6
To assets held for sale	(168)	-
Balance at 31 December	-	168

In 2011, inventory impairments amounted to €Nil (2010: €6,000). The movement was included in cost of sales. Total inventory costs of €27,485,000 (2010: €23,300,000) were charged to the statement of comprehensive income.

21. Trade and other receivables

	2011 €'000	2010 €'000
Group		
Current trade and other receivables		
Trade receivables due from related parties	113	107
Value added tax	830	1,269
Other trade receivables	28,522	32,833
Other receivables	886	932
Prepayments	760	1,256
	31,111	36,397
Non-current trade and other receivables		
Long leasehold interest prepaid	193	194
	31,304	36,591

See also note 23 in respect of assets held for sale.

	2011 €'000	2010 €'000
Company		
Trade receivables due from related parties	9,456	14,270
Other trade receivables	2,311	2,561
Prepayments	224	285
	11,991	17,116

The Group and Company exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

Notes to the consolidated financial statements continued

22. Cash and cash equivalents

Group	2011 €'000	2010 €'000
Bank loans and overdrafts due within one year	**(12,200)**	(6,382)
Cash and cash equivalents at 31 December	**(12,200)**	(6,382)

Company	2011 €'000	2010 €'000
Bank loans and overdrafts	**(8,332)**	(2,921)

There is a Group facility with our bank which allows for offset of the Group and 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 30.

23. Assets held for sale

The Group disposed of its interest on the liquid and trade milk business and agri stores business on 13 January 2012. The respective losses for the year ended 31 December 2011 and 2010 are disclosed within discontinued operations in the income statement.

The net assets of the businesses disposed of which are included in assets held for sale as at 31 December 2011, the total consideration received and the portion of consideration consisting of cash & cash equivalents and the amount of cash and cash equivalents over which control was lost are as follows:

	2011 €'000
Assets	
Intangible assets	**1,116**
Property, plant & equipment	**3,705**
Inventories	**2,756**
Trade and other receivables	**9,123**
Cash and cash equivalents	**5**
Total assets	**16,705**
Liabilities	
Trade and other payables	**7,273**
Deferred tax liabilities	**96**
Total liabilities	**7,369**
Total enterprise value	**9,336**

Total potential consideration receivable on disposal is €22.7m which includes deferred consideration payable and working capital adjustments. The current estimate of minimum profit on disposal is €5.5m including the impact of recycling foreign exchange gain from equity of €0.14m.

The deferred consideration is based on the operating and financial performance of the liquid and trade milk businesses during the year to 31 December 2012. Working capital adjustments are expected to be finalised by May 2012.

Transaction costs of €0.46m associated with the disposal are presented as an exceptional charge within administration costs as set out in Note 8.

24. Capital and reserves

Share capital and share premium

	Ordinary shares 2011	2010
On issue at 1 January - Ordinary shares of 13 cent each	**10,285,590**	10,285,590
On issue at 31 December - Ordinary shares of 13 cent each	**10,285,590**	10,285,590

The Group also has issued share options (see note 28).

At 31 December 2011, the authorised share capital comprised 50,000,000 ordinary shares (2010:50,000,000). All issued shares are fully paid.

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.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets 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.

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 December 2010, the Group held 143,835 of the Company's shares (2010: 143,835). This represented 1.4% (2010: 1.4%) of the issued share capital of the Company. The distribution of retained earnings is restricted by the value of own shares held.

Share option reserve

The share option reserve reflects charges relating to granting of both shares and options.

Dividends

The following dividends were declared and paid by the Group:

	2011 €'000	2010 €'000
€0.16 per qualifying ordinary share (2010: €0.16)	**1,623**	1,623

A final dividend for 2010 of €0.09 cent per share was paid on 25 August 2011. An interim dividend for 2011 of €0.07 per share was paid on 2 December 2011.

After 31 December 2011 dividends of €0.09 per qualifying share were proposed by the directors for 2011.The proposed dividends have not been provided for and there are no income tax consequences.

Notes to the consolidated financial statements continued

25. (Loss)/earnings per share

Basic (loss)/earnings per share

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

Profit attributable to ordinary shareholders

	2011 €'000	2010 €'000
(Loss)/profit for the year – continuing operations	**(2,950)**	3,609
(Loss)/profit for the year – discontinued operations	**(4,901)**	(553)
(Loss)/profit for the year	**(7,851)**	3,056
(Loss)/profit attributable to ordinary shareholders	**(7,785)**	3,050

Weighted average number of ordinary shares In thousands of shares

	2011 €'000	2010 €'000
Weighted average number of ordinary shares in issue for the year	**10,286**	10,286
Weighted average number of treasury shares	**(144)**	(144)
Denominator for basic earnings per share	**10,142**	10,142
Effect of share options in issue	**65**	75
Weighted average number of ordinary shares (diluted) at 31 December	**10,207**	10,217

(Loss)/earnings per share	2011	2010
Basic (loss)/earnings per share (euro cent):		
Continued	**(28.4)**	35.5
Discontinued	**(48.4)**	(5.4)
	(76.8)	30.1
Diluted (loss)/earnings per share (euro cent):		
Continued	**(28.2)**	34.6
Discontinued	**(48.0)**	(4.7)
	(76.2)	29.9

26. 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 30.

	2011 €'000	2010 €'000
Non-current liabilities		
Secured bank loans	**17,396**	3,699
Finance lease liabilities	**197**	10
	17,593	3,709
Current liabilities		
Secured bank loans	**3,302**	13,102
Finance lease liabilities	**122**	6
	3,424	13,108
Total	**21,017**	16,817

26. Loans and borrowings continued

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 Dec 2011 Face value €'000	31 Dec 2011 Carrying amount €'000	31 Dec 2010 Face value €'000	31 Dec 2010 Carrying amount €'000
Secured bank loan	eur	Euribor+1.50%	2013	**3,698**	**3,698**	5,801	5,801
Secured bank loan	eur	Euribor+1.50%	2011	**-**	**-**	11,000	11,000
Secured bank loan	eur	Euribor+1.50%	2013	**11,000**	**11,000**	-	-
Secured bank loan	eur	Euribor+2.25%	2016	**3,000**	**3,000**	-	-
Secured bank loan	eur	Euribor+3.00%	2016	**3,000**	**3,000**	-	-
Finance lease liabilities	eur	6%	2015	**348**	**319**	19	16
Total interest-bearing liabilities				**21,046**	**21,017**	16,820	16,817

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2011 €'000	Interest 2011 €'000	Present value of minimum lease payments 2011 €'000	Future minimum lease payments 2010 €'000	Interest 2010 €'000	Present value of minimum lease payments 2010 €'000
Less than one year	**130**	**8**	**122**	7	1	6
Between one and five years	**218**	**21**	**197**	12	2	10
	348	**29**	**319**	19	3	16

Company

	2011 €'000	2010 €'000
Non-current liabilities		
Secured bank loans	**17,396**	3,699
Current liabilities		
Secured bank loans	**3,302**	13,102
Total	**20,698**	16,801

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 Dec 2011 Face value €'000	31 Dec 2011 Carrying amount €'000	31 Dec 2010 Face value €'000	31 Dec 2010 Carrying amount €'000
Secured bank loan	eur	Euribor+1.50%	2013	**3,698**	**3,698**	5,801	5,801
Secured bank loan	eur	Euribor+1.50%	2011	**-**	**-**	11,000	11,000
Secured bank loan	eur	Euribor+1.50%	2013	**11,000**	**11,000**	-	-
Secured bank loan	eur	Euribor+2.25%	2016	**3,000**	**3,000**	-	-
Secured bank loan	eur	Euribor+3.00%	2016	**3,000**	**3,000**	-	-
Total interest-bearing liabilities				**20,698**	**20,698**	16,801	16,801

Notes to the consolidated financial statements continued

27. Employee benefits

The pension entitlements of certain employees of the Group arise under a defined benefit pension scheme and are secured by contributions by the Group to separately administered pension funds. Annual contributions are based on the advice of professionally qualified actuaries on the basis of triennial valuations and are charged to profit or loss on an accruals basis.

On the basis of the latest actuarial valuation, which were carried out at 1 January 2010 the market value of the schemes assets represented 79% of the benefits that have accrued to members allowing for future increases in pensionable earnings. The report recommended an increase in the employer contribution rate as at 1 January 2011 which has been adopted by the group.

The principal actuarial assumption adopted in the valuation was that, over the long term, the annual rate of return on scheme assets would be 4% higher than the annual increase in pensionable remuneration. The pension income credited to the income statement in respect of defined benefit pension schemes was €402,000 (2010: €155,000 charge). The actuarial report is not available for public inspection.

The Group operated one defined benefit scheme during the year. The full actuarial valuation carried out as outlined above was updated to 31 December 2010 for IAS 19 disclosure purposes by qualified independent actuaries under the projected unit credit method.

The Group also 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 charge represents contributions payable by the companies to the funds and totalled €308,000 (2010: €386,000). At 31 December 2010, €19,400 (2010: €40,000) was included within creditors in respect of defined contribution pension liabilities.

The full cost of employee pension costs recognised in the income statement was as follows:

	2011 €'000	2010 €'000
Defined benefit scheme costs	**176**	139
Defined contribution scheme costs	**308**	308
Total	**484**	447

Group and Company

	2011 €'000	2010 €'000
Present value of funded obligations	**(2,885)**	(3,651)
Fair value of plan assets	**2,628**	3,123
Recognised liability for defined benefit obligations	**(257)**	(528)

The Group makes contributions to a non-contributory defined benefit plan that provides pension for employees upon retirement. Plans entitle a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service that the employee provided.

Plan assets comprise:	2011 €'000	2010 €'000
Equity securities	**1,742**	2,360
Government bonds	**811**	464
Property	**3**	102
Cash	**72**	197
	2,628	3,123

27. Employee benefits continued

Movement in the present value of the defined benefit obligations

	2011 €'000	2010 €'000
Defined benefit obligations at 1 January	**3,651**	3,331
Benefits paid by the plan	**(640)**	(28)
Current service costs	**176**	139
Interest on obligation	**195**	175
Employee contributions	**50**	53
Actuarial gains/(losses)recognised in other comprehensive income	**29**	(19)
Settlement gain	**(576)**	-
Defined benefit obligations at 31 December	**2,885**	3,651

Movement in the present value of plan assets

	2011 €'000	2010 €'000
Fair value of plan assets at 1 January	**3,123**	2,595
Contributions paid into the plan	**270**	221
Benefits paid by the plan	**(640)**	(28)
Expected return on plan assets	**197**	175
Actuarial (losses)/gains recognised in other comprehensive income	**(322)**	160
Fair value of plan assets at 31 December	**2,628**	3,123

Expense recognised in profit or loss

	2011 €'000	2010 €'000
Current service costs	**176**	139
Interest on obligation	**195**	191
Expected return on plan assets	**(197)**	(175)
Settlement gain	**(576)**	-
	(402)	155

The expense is recognised in the following line items in the income statement:

	2011 €'000	2010 €'000
Cost of sales	**(132)**	(79)
Finance income/(expense)	**2**	(16)
Exceptional costs	**576**	-
Administrative expenses	**(44)**	(60)
	402	(155)
Actual return on plan assets	**(125)**	335

Actuarial gains and losses recognised directly in other comprehensive income

	2011 €'000	2010 €'000
Cumulative gain at 1 January	**(352)**	(532)
Recognised during the year	**(351)**	179
Cumulative gain at 31 December	**(703)**	(353)

Notes to the consolidated financial statements continued

27. Employee benefits continued

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010
Discount rate at 31 December	**5.30%**	5.50%
Expected return on plan assets at 1 January	**5.50%**	6.50%
Future salary increases	**3.25%**	3.50%
Future pension increases	**n/a**	n/a
Inflation	**2.00%**	2.25%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring in 2011 at age 65 is 22.30 for males (2010: 22.10) and 23.70 for females (2010: 23.60). The average life expectancy of an individual retiring at age 65, 20 years from now, is 24.90 for males (2010: 24.80) and 25.90 for females (2010: 25.80).

The overall expected long-term rate of return on assets is 6.50 percent. The expected long-term rate of return is a weighted average of the individual expected rates of return on each asset class.

Historical information

	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Present value of the defined benefit obligation	**(2,885)**	(3,651)	(3,331)	(3,053)	(5,006)
Fair value of plan assets	**2,628**	3,123	2,595	1,980	5,006
Deficit in the plan	**(257)**	(528)	(736)	(1,073)	-
Experience gains/(losses) arising on plan liabilities	**97**	12	176	(125)	703
Experience adjustments arising on plan assets	**(322)**	160	318	(1,310)	(516)

The Group expects €71,000 (2010: €233,000) in contributions to be paid to the defined benefit scheme in 2012.

28. Share-based payments

On 27 July 2005, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. On 1 May 2006, 150,000 options were granted under this scheme, on 28 May 2007, a further 120,000 were granted of which 30,000 forfeited in 2008 and on 22 October 2009, a further 215,000 were granted under the scheme. In accordance with this programme, options granted in 2006 and 2007 are exercisable at the market price of the shares at the date of grant. Options granted in 2009 are exercisable at a price of €3. 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.

Additionally, a share option arrangement granted before 7 November 2002 exists. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

Grant date / employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
Option grant on 1 May 2006	150	3 years' service	7 years
Option grant on 28 May 2007 (net)	90	3 years' service	7 years
Option grant on 22 October 2009	215	3 years' service	7 years
Total share options	**455**		

At 31 December 2011 there were 67,000 (2010: 67,000) options outstanding with a grant date pre 7 November 2002.

28. Share-based payments continued

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

In thousands of options	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding at 1 January:				
- Pre 2002 options	**€0.13**	**67**	€0.13	67
- Options issued in 2006	**€4.35**	**150**	€4.35	150
- Options issued in 2007	**€6.90**	**90**	€6.90	90
- Options issued in 2009	**€3.00**	**215**	€3.00	215
Outstanding at 31 December	**€4.22**	**522**	€4.22	522
Exercisable at 31 December:	**€0.13**	**67**	€0.13	67
	€4.35	**150**		
	€6.90	**90**		
	€3.00	**215**		

The options outstanding at 31 December 2011 have an exercise price in the range of €0.13 to €6.90 and a weighted average contractual life of 2.41 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 such grants in 2011 or 2010.

Employee expenses

	2011 €'000	2010 €'000
Share options granted in 2006	**-**	-
Share options granted in 2007	**-**	19
Share options granted in 2009	**39**	39
Total expense recognised as employee costs	**39**	58

Notes to the consolidated financial statements continued

29. Trade and other payables

	2011 €'000	2010 €'000
Group		
Trade payables due to related parties	**101**	97
Other trade payables	**14,824**	17,024
PAYE	**205**	181
PRSI	**93**	161
Accrued expenses	**4,026**	4,189
Deferred rental income	**-**	166
Value added tax	**52**	170
	19,301	21,988
Non-current trade and other payables		
Deferred consideration	**863**	-
Capital grant	**129**	-
Fair value of option granted over investment in associate	**1,709**	1,343
	22,002	23,331

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

See also note 23 in respect of assets held for sale.

	2011 €'000	2010 €'000
Company		
Trade payables due to related parties	**6,099**	23,072
Other trade payables	**298**	1,685
PAYE	**109**	81
PRSI	**38**	54
Accrued expenses	**1,776**	1,223
Value added tax	**43**	145
	8,363	26,260
Non-current trade and other payables		
Capital grant	**4**	-
Fair value of option granted over investment in associate	**1,709**	1,343
	10,076	27,603

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

30. Financial instruments

The Group's financial instruments at 31 December 2011 were classified as follows:

31 December 2011	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	1,301	-	-
Loan to associates	2,125	-	-	-
Trade receivables due from related parties	113	-	-	-
Trade receivables	28,522	-	-	-
Other receivables	886	-	-	-
Assets held for sale	9,123	-	-	-
Loans and borrowings	-	-	-	(20,698)
Bank overdraft	-	-	-	(12,200)
Trade and other payables	-	-	-	(19,301)
Option over financial asset	-	-	(1,709)	-
Deferred consideration	-	-	(550)	(313)
Liabilities held for sale	-	-	-	(7,273)
	40,769	**1,301**	**(2,259)**	**(59,785)**

31 December 2010	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	1,671	-	-
Loan to associates	3,244	-	-	-
Trade receivables due from related parties	107	-	-	-
Trade receivables	32,833	-	-	-
Other receivables	932	-	-	-
Loans and borrowings	-	-	-	(16,801)
Bank overdraft	-	-	-	(6,382)
Trade and other payables	-	-	-	(21,988)
Option over financial asset	-	-	(1,343)	-
	37,116	1,671	(1,343)	(45,171)

Company

31 December 2011	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	1,274	-	-
Loan to associates	2,125	-	-	-
Trade receivables due from related parties	9,456	-	-	-
Other trade receivables	2,311	-	-	-
Other receivables	224	-	-	-
Assets held for sale	2,288	-	-	-
Loans and borrowings	-	-	-	(20,698)
Bank overdraft	-	-	-	(8,332)
Payables due to related parties	-	-	-	(6,099)
Trade and other payables	-	-	-	(2,264)
Option over financial asset	-	-	(1,709)	-
Liabilities held for sale	-	-	-	(1,252)
	16,404	**1,274**	**(1,709)**	**(38,645)**

Notes to the consolidated financial statements continued

30. Financial instruments continued

Company

31 December 2010	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	287	-	-
Loan to associates	3,244	-	-	-
Trade receivables due from related parties	14,270	-	-	-
Other trade receivables	2,561	-	-	-
Other receivables	-	-	-	-
Loans and borrowings	-	-	-	(16,801)
Bank overdraft	-	-	-	(2,921)
Payables due to related parties	-	-	-	(23,072)
Trade and other payables	-	-	-	(3,188)
Option over financial asset	-	-	(1,343)	-
	20,075	287	(1,343)	(45,982)

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group and Company. Assets held for sale were recovered through the sale of the liquid and trade milk and stores business on 13 January 2012.

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

Group	Note	Carrying amount 2011 €'000	2010 €'000
Loans due from associates	17	**2,125**	3,244
Available-for-sale equity investments	18	**1,301**	1,671
Trade receivables from related parties		**113**	107
Trade and other receivables		**28,522**	32,833
Other receivables		**886**	932
Assets held for sale		**9,123**	-
		42,070	38,787

Company	Note	2011 €'000	2010 €'000
Loans due from associates	17	**2,125**	3,244
Available-for-sale financial assets	18	**1,274**	287
Trade receivables from related parties		**9,456**	14,270
Trade and other receivables		**2,535**	2,561
Assets held for sale		**2,288**	-
		17,678	20,362

30. Financial instruments continued

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

Group

	Carrying amount 2011 €'000	Carrying amount 2010 €'000
Domestic	**8,229**	15,882
Euro-zone countries	**840**	828
United Kingdom	**6,652**	6,508
Other regions	**12,801**	9,615
	28,522	32,833

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:

Company

	Carrying amount 2011 €'000	Carrying amount 2010 €'000
Domestic	**2,311**	2,626

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:

Group

	Carrying amount 2011 €'000	Carrying amount 2010 €'000
Wholesale customers	**15,146**	19,185
Retail customers	**13,376**	13,648
	28,522	32,833

Impairment losses

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

Company

	Carrying amount 2011 €'000	Carrying amount 2010 €'000
Wholesale customers	**2,311**	2,626

The ageing of trade receivables at the reporting date was:

Group

	Gross 2011 €'000	Impairment 2011 €'000	Gross 2010 €'000	Impairment 2010 €'000
Not past due	**20,677**	**75**	22,256	5
Past due < 30 days	**1,515**	**5**	2,871	25
Past due 30 – 365 days	**3,659**	**575**	11,000	4,786
Past due > 365 days	**9,193**	**5,867**	2,827	1,305
	35,044	**6,522**	38,954	6,121

Notes to the consolidated financial statements continued

30. Financial instruments continued

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

	2011 €'000	2010 €'000
Balance at 1 January	**6,121**	6,221
Fully impaired debts written off	**-**	(36)
Debts recovered	**-**	86
Impairment	**401**	(150)
Balance at 31 December	**6,522**	6,121

Based on historic default rates, the company believes that no impairment allowance is necessary in respect of trade receivables up to 30 days except for €75,000 of credit charges. 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 being a category of customers suffering from poor market conditions 16% of the balance past due from 30 to 365 days and 64% of balances past due in excess of 365 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 €0.38m was recognised in respect of associate loans in 2011. In 2010, the Group and Company recognised a total reversal of impairment of €358,000 against amounts due on loans to associates.

Company	Gross 2011 €'000	Impairment 2011 €'000	Gross 2010 €'000	Impairment 2010 €'000
Not past due	**742**	**2**	1,018	1
Past due < 30 days	**158**	**-**	286	-
Past due 30 – 365 days	**1,062**	**28**	559	35
Past due > 365 days	**5,701**	**5,322**	987	188
	7,663	**5,352**	2,850	224

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

	2011 €'000	2010 €'000
Balance at 1 January	**244**	265
Fully impaired debts written off	**(44)**	(41)
Transfer of debts from subsidiary	**5,152**	-
Balance at 31 December	**5,352**	224

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables up to 30 days except for €2,000 of credit charges. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided of 0% of the balance past due less than 30 days being a category of customers suffering from poor market conditions, 3% of the balance past due from 30 to 365 days and 93% of balances past due in excess of 365 days 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 €0.38m was recognised in respect of associate loans in 2011. In 2010, the Group and Company recognised a total reversal of impairment of €358,000 against amounts due on loans to associates.

30. Financial instruments continued

Liquidity risk

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

31 December 2011

	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
Group							
Secured bank loans	20,698	(21,738)	(1,911)	(1,911)	(14,044)	(3,872)	-
Finance lease liabilities	319	(319)	(38)	(38)	(76)	(167)	-
Trade and other payables	19,301	(19,301)	(19,301)	-	-	-	-
Option over financial asset	1,709	(1,914)	-	-	(1,914)	-	-
Bank overdraft	12,200	(12,200)	(12,200)	-	-	-	-
Deferred consideration	863	(901)	-	-	(901)	-	-
	55,090	**(56,373)**	**(33,450)**	**(1,949)**	**(16,935)**	**(4,039)**	**-**

31 December 2010

	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
Group							
Secured bank loans	16,801	(17,563)	(1,262)	(12,262)	(2,402)	(1,637)	-
Finance lease liabilities	16	(15)	(2)	(3)	(10)	-	-
Trade and other payables	21,988	(21,988)	(21,988)	-	-	-	-
Option over financial asset	1,343	(1,504)	-	-	(1,504)		
Bank overdraft	6,382	(6,382)	(6,382)	-	-	-	-
	46,530	(47,452)	(29,634)	(12,265)	(3,916)	(1,637)	-

31 December 2011

	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
Company							
Secured bank loans	20,698	(21,738)	(1,911)	(1,911)	(14,044)	(3,872)	-
Payables due to related parties	6,099	(6,099)	(6,099)	-	-	-	-
Trade and other payables	2,264	(2,264)	(2,264)	-	-	-	-
Option over financial asset	1,709	(1,914)	-	-	(1,914)	-	-
Bank overdraft	8,332	(8,332)	(8,332)	-	-	-	-
	39,102	**(40,347)**	**(18,606)**	**(1,911)**	**(15,958)**	**(3,872)**	**-**

31 December 2010

	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
Company							
Secured bank loans	16,801	(17,563)	(1,262)	(12,262)	(2,402)	(1,637)	-
Payables due to related parties	23,072	(23,072)	(23,072)	-	-	-	-
Trade and other payables	3,188	(3,188)	(3,188)	-	-	-	-
Option over financial asset	1,343	(1,504)	-	-	(1,504)	-	-
Bank overdraft	2,921	(2,921)	(2,921)	-	-	-	-
	47,325	(48,248)	(30,443)	(12,262)	(3,906)	(1,637)	-

Notes to the consolidated financial statements continued

30. Financial instruments continued

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:

	euro	GBP	euro	GBP
	31 December 2011		31 December 2010	
	€'000	€'000	€'000	€'000
Trade receivables	**13**	**12,297**	20	11,232
Loans and overdrafts	**(493)**	**(169)**	(1,579)	(6,683)
Trade payables	**(130)**	**(5,218)**	(111)	(7,140)
Gross balance sheet exposure	**(610)**	**6,910**	(1,670)	(2,591)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
euro	2011	2010	2011	2010
GBP	**1.19**	1.14	**1.19**	1.14

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 2010.

	Equity €'000	Profit or loss €'000
31 December 2011		
GBP	**(266)**	**(176)**
31 December 2010	(143)	(515)

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.

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 2010.

	Profit or loss		Equity	
	100 bp increase €'000	100 bp decrease €'000	100 bp increase €'000	100 bp decrease €'000
31 December 2011				
Cash flow sensitivity (net)	**329**	**(329)**	**329**	**(329)**
31 December 2010				
Cash flow sensitivity (net)	232	(232)	(232)	232

30. Financial instruments continued

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 December 2011 would have increased equity and profit or loss by €45,000 (2010: €84,000). A 5% weakening of equity prices would have had an equal but opposite effect.

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 December 2011		31 December 2010	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Available-for-sale financial assets	**1,301**	**1,301**	1,671	1,671
Loans and receivables	**31,646**	**31,646**	37,116	37,116
Assets held for sale	**9,123**	**9,123**	-	-
Secured bank loans	**(20,698)**	**(21,034)**	(16,801)	(17,014)
Finance lease liabilities	**(319)**	**(319)**	(16)	(16)
Trade and other payables	**(19,301)**	**(19,301)**	(21,988)	(21,988)
Liabilities held for sale	**(7,273)**	**(7,273)**	-	-
Derivatives - option over financial asset	**(1,709)**	**(1,709)**	(1,343)	(1,343)
Bank overdraft	**(12,200)**	**(12,200)**	(6,382)	(6,382)
Deferred consideration	**(863)**	**(863)**	-	-
	(20,293)	**(20,629)**	(7,743)	(7,956)

The basis for determining fair values is disclosed in note 4.

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 December 2011 and 31 December 2010, the Group recognised and measured the following financial instruments at fair value:

	2011 Total €'000	2011 Level 1 €'000	2011 Level 2 €'000	2011 Level 3 €'000
Available-for-sale financial assets				
Unquoted equity investments	**1,301**	**-**	**-**	**1,301**
Derivatives - option over financial asset	**1,709**	**-**	**-**	**1,709**
Derivatives - deferred consideration	**550**	**-**	**-**	**550**

	2010 Total €'000	2010 Level 1 €'000	2010 Level 2 €'000	2010 Level 3 €'000
Available-for-sale financial assets				
Unquoted equity investments	1,671	-	-	1,671
Derivatives - option over financial asset	1,343	-	-	1,343

Notes to the consolidated financial statements continued

30. Financial instruments continued

Fair values continued

Fair value hierarchy continued

Additional disclosures for level 3 fair value measurements

	2011 €'000	2010 €'000
Derivatives – option over financial asset		
At beginning of year	1,343	810
Expense recognised in the income statement	366	533
At the end of the year	1,709	1,343
Derivatives – deferred consideration		
At beginning of year	-	-
Recognised during the year	550	-
At the end of the year	550	-
Unquoted equity investments		
At beginning of year	1,671	-
Additions	-	2,515
Loss recognised in the income statement	(370)	(844)
At the end of the year	1,301	1,671

The fair value of the option over a financial asset was measured by deriving an enterprise value using an earnings multiple comparable with recent market transactions. The resulting enterprise value was adjusted for the net funds of the investee, and a discount factor applied to reflect the minority interest nature of the investment. The effect of a change to a reasonably possible alternative assumption does not have a significant impact upon Group profit, total assets, or total equity.

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:

	2011	2010
Derivatives	3.1%	3.1%
Loans and borrowings	2.7%	2.7%
Leases	6.0%	6.0%

31. Business combinations

On 6 January 2011, the Group acquired a controlling interest in Biogreen Foods Limited, a boutique yogurt business based in London. This acquisition provides an additional revenue stream and complements the groups existing value added dairy business.

On 11 November 2011, the Group acquired 100% of AJ Allan (Potato Merchant Limited) and AJ Allan (Brechin) Limited. The acquisition of AJ Allan (Potato Merchant Limited) and AJ Allan (Brechin) Limited has significantly increased the Group's potato business.

The fair value of the assets acquired, determined in accordance with IFRS, were as follows:

	On acquisition €'000	Fair value adjustment €'000	Total €'000
Assets:			
Intangible assets	-	272	272
Plant and equipment	1,344	-	1,344
Property	981	330	1,311
Inventories	852	100	952
Trade and other receivables	138	-	138
Total assets	**3,315**	**702**	**4,017**
Liabilities:			
Trade and other payables	(970)	-	(970)
Bank overdraft	(356)	-	(356)
Other liabilities	(8)	-	(8)
Total liabilities	**(1,334)**	**-**	**(1,334)**
Total enterprise value	**1,981**	**702**	**2,683**
Satisfied by:			
Cash payment			4,092
Overdraft acquired			356
Net cash outflow			4,448
Consideration payable			863
Total consideration			**5,311**
Goodwill on acquisition			**2,272**

Biogreen Foods Limited

The principal factors contributing to the recognition of goodwill on the acquisition of Biogreen is the expected realisation of operational synergies through the combination of activities of Biogreen Foods Limited with existing operations in the Group, together with the assembled workforce and knowledge and experience of employees. Total amount of goodwill recognised of €1.8m is not expected to be deductible for tax purposes.

The principal intangible assets acquired were brand and customer related intangible amounting to €0.27m.

The deferred contingent consideration is turnover based and is payable ending 36 months following the acquisition date, but subject to extension up to a maximum of 60 months after the completion date.

Transactions costs of €0.02m associated with the acquisition of Biogreen Foods Limited are presented as an exceptional charge within administration costs as set out in Note 8.

The post acquisition impact of Biogreen Foods Limited was to increase revenue for the financial period by €1.4m. The post acquisition impact of the business combination on Group profit for the financial period was a loss of €0.25m.

Notes to the consolidated financial statements continued

31. Business combinations continued

AJ Allan (Potato Merchants) Limited and AJ Allan (Brechin) Limited

The principal factors contributing to the recognition of goodwill on the acquisition of AJ Allan (Potato Merchants) Limited and AJ Allan (Brechin) Limited is the expected realisation of operational synergies through the combination of activities of both companies with existing operations in the Group, together with the assembled workforce and knowledge and experience of employees. Total amount of goodwill recognised of €0.5m is not expected to be deductible for tax purposes.

The consideration payable was paid in full at completion.

Transactions costs of €0.06m associated with the acquisition of the AJ Allan companies are presented as an exceptional charge within administration costs as set out in Note 8.

The post acquisition impact of the business combination on Group turnover and loss for the financial period was not material.

If the acquisition date of AJ Allan (Potato Merchants) Limited and AJ Allan (Brechin) Limited was at the beginning of the period, Group Revenue for the financial period would have been €141.5m. In addition, the loss of the Group for continuing operations would have been €3m.

32. Operating leases

Leases as lessor

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

	2011 €'000	2010 €'000
Less than one year	**474**	539
Between one and five years	**2,120**	2,439
	2,594	2,978

During the year ended 31 December 2011 €1,133,000 was recognised as rental income in the income statement (2010: €1,094,000). Expense charges against this income was as follows: maintenance costs €72,000 (2010: €68,000), management expenses €232,000 (2010: €234,000) and depreciation €164,000 (2010: €167,000).

The Group and Company had no operating lease commitments as leasee at 31 December 2011 (2010: €Nil).

33. Capital commitments

At the year end there were no capital commitments authorised by the Directors at the year end and not provided for in the financial statements (2010: €203,000).

34. Contingencies

Group and Company

Capital grants up to a maximum of €148,000 (2010: €730,000) could be become repayable in certain circumstances as set out in the agreements.

35. Related parties

Parent and ultimate controlling party

The Parent and ultimate controlling party of the Group is Donegal Creameries 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 28.

Key management personnel compensation comprised:

	2011 €'000	2010 €'000
Short-term employee benefits	**445,240**	533,574
Post-employment benefits	**68,144**	68,144
Share-based payments	**10,800**	17,143
	524,184	618,861

Key management personnel and director transactions

Directors of the Company control 6.0 percent 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 €1,379,641 (2010: €1,549,381) and €620,951 (2010: €588,912), respectively. Directors receive a dividend per qualifying share held at dividend date.

Related party transactions – Group

	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Sale of goods and services				
Sales by Group to directors	**621**	589	**113**	107
Purchases by Group from directors	**(1,380)**	(1,549)	**(101)**	(97)
By parent to associates	**-**	-	**-**	-

Other related party transactions – Company

	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Sale of goods and services				
Sales by parent to directors	**298**	395	**67**	65
By parent to subsidiaries	**738**	958	**9,389**	14,205
Parent from subsidiaries	**(2,596)**	(2,517)	**6,099**	23,072
By parent to associates	**-**	-	**-**	-

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.

Notes to the consolidated financial statements continued

36. Group entities

Subsidiaries	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
Glenveagh Agricultural Co-operative Society Limited. *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
Robert Smyth & Sons (Strabane & Donegal) Limited *Registered office: Millsessiagh, Ballindrait, Lifford, Co Donegal*	Ireland	**100**	100
Zopitar Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**83**	83
Milburn Dairy Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
Irish Potato Marketing Limited *Registered office: 412 Q House, Furze Rd, Sandyford Industrial Estate, Dublin 18*	Ireland	**100**	100
Donegal Potatoes Limited *Registered office: Colehill, Newtoncunningham, Co Donegal*	Ireland	**100**	100
The Different Dairy Company Limited *Registered office: Crossroads, Killygordon, Co Donegal*	Ireland	**100**	100
Maybrook Dairy (Omagh) Limited *Registered office:14A Dromore Rd, Omagh, Co Tyrone, BT78 1QZ*	Northern Ireland	**100**	100
McCorkell Holdings Limited *Registered office: Administration Building, Lisahally Terminal, Derry, BT47 6FL*	Northern Ireland	**75**	75
Maybrook Dairy Limited *Registered office:14A Dromore Rd, Omagh, Co Tyrone, BT78 1QZ*	Northern Ireland	**100**	100
Euro-Agri Limited *Registered office:14A Dromore Rd, Omagh, Co Tyrone, BT78 1QZ*	Northern Ireland	**100**	100
Estuary Trading Limited *Registered office:14A Dromore Rd, Omagh, Co Tyrone, BT78 1QZ*	Northern Ireland	**100**	100
IPM Holland B.V *Registered office: Marssumerdyk 1, 9033 WD Deinum, The Netherlands*	Holland	**100**	100
MPCO Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
High Meadow Patents Limited *Registered office: Crossroads, Killygordon, Co Donegal*	Ireland	**100**	100
An Grianan Grain Company Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
Aisheco Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
Donra Dairies Limited *Registered office: Ballyraine, Letterkenny, Co Donegal*	Ireland	**100**	100
Chef in a Box Limited *Registered office: 762A/763A Henley Rd, Slough Trading Estate, Slough, Berks, SL1 4JW*	UK	**100**	100
Biogreen Foods Limited *Registered office: 65 Cavendish Street, London, W1G 7LS*	UK	**45**	-

36. Group entities

Subsidiaries	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
AJ Allan (Brechin) Limited *Registered office: East Mill, Brechin, Angus, UK, DD9 7HJ*	UK	**100**	-
AJ Allan (Potato Merchants) Limited *Registered office: East Mill, Brechin, Angus, UK, DD9 7HJ*	UK	**100**	-
Solanex Limited *Registered office: Rua Samuel Hahnemann nº17, Jardim Santo Andre, São João da Boa - SP, CEP 13872 – 029, Brazil*	Brazil	**85**	85
Associated undertakings:			
Monaghan Middlebrook Mushrooms *Registered office: Tyholland, Monaghan, Co Monaghan*	Ireland	**35**	35
North Western Livestock Holdings Limited *Registered office: Tubbercurry, Co Sligo*	Ireland	**22.4**	22.4
Leapgrange Limited *Registered office: The Mall, Ballyshannon, Co Donegal*	Ireland	**42.7**	42.7

The following subsidiaries will avail of the filing exemption available under Section 17 of the Companies (Amendment) Act 1986, whereby they will annex the financial statements of Donegal Creameries plc to their annual returns: Robert Smyth & Sons (Strabane & Donegal) Limited, Milburn Dairy Limited, Irish Potato Marketing Limited, The Different Dairy Company Limited, MPCO Limited, High Meadow Patents Limited, Aisheco Limited, Donra Dairies Limited and An Grianan Grain Company Limited.

Notes

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