Donegal

Donegal Creameries plc - Annual Report & Financial Statements 2010

expanding our business

"Donegal Creameries plc delivered a solid performance in 2010. Our key strategic areas performed well, our Agri-input business returned to profitability and associate investments showed strong performance. Notwithstanding the challenging economic climate, Donegal Creameries' diversified portfolio will continue to deliver value to shareholders and we will continue to evaluate acquisition and investment opportunities consistent with our key strategic focus areas. The business has made a satisfactory start to the current year and we are ensuring that proactive steps are taken to develop a successful future"

Ian Ireland - Managing Director

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Summary

Adjusted operating profit of **€3.4m**

Operational **turnover up 11%** to €126m

Adjusted **earnings per share up 38%** to 67.7c in line with market expectation

Challenging year for the Dairy division, specifically the liquid milk business, due to milk price increases and a competitive retail market. Our **value added dairy products business performed strongly** during the year

Return to profitability of Agri-input business driven by **strong performance from our speciality feeds** and retail stores businesses

Produce business performance remains strong despite a difficult final quarter due to adverse weather conditions, delaying shipments into early 2011

Good performance from associates, in particular, Monaghan Middlebrook Mushrooms

Continued strategic progress:

- Organic dairy product range launched during the year and **excellent growth achieved in UK market through Rumblers brand**
- **Continued focus on UK retail** and foodservice market
- **Expansion plans for Chef in a Box** operational from April 2011
- Acquisition of a controlling interest in Bio Green Foods (UK) in January 2011 **enhances our niche dairy market presence in the UK**
- Continued **organic conversion** of the Grianan Estate farm
- Monaghan Middlebrook Mushrooms is in the final stages of its **€100m capital investment programme** to consolidate its position as Europe's leading producer

Dividend per share **maintained at 16c**

Financial Highlights

		2010	2009	Change
Turnover- continuing operations	€'000	126,189	113,271	Up 11.4%
Adjusted operating profit*	€'000	3,439	3,017	Up 14.0%
Profit before tax– continuing operations	€'000	2,666	46	Up €2.6m
Profit after tax	€'000	3,056	17	Up €3.0m
Adjusted earnings per share**	Cent	67.7	48.9	Up 18.8c
Earnings per share (basic)	Cent	30.1	0.3	Up 29.8c
Dividend per share	Cent	16c	16c	-
Investment property valuation	€'000	31,053	36,885	Down €5.8m
Net asset value per share***	€	5.99	5.83	Up 16.0c

* Adjusted operating profit before the impact of change in fair value of investment properties

** 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 2009

*** Net assets are total equity attributable to equity holders of the Company

Directors & Other Information

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Board of Directors

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

1. Ian Ireland (Managing Director), BSC, MBA, Chartered Director (aged 49) 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.

2. John Mc Dermott (aged 46) 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.

3. Geoffrey Vance (aged 59) 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.

4. Ivan Grier (aged 66) is Vice 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 also a director of North Western Livestock Holdings Limited and the Donegal County Enterprise Board.

5. Francis Devenny (aged 65) 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.

6. Matt McNulty (aged 65) 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.

7. Geoffrey McClay (aged 45) 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 from 2001 to 2006. He is also currently a director of Mullinacross Enterprises Limited.

8. Patrick Kelly Jnr (aged 38) 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.

9. Norman Witherow (aged 58) was appointed to the Board on 2 July 2003. He is the chairman of the Remuneration Committee. He is also a director of Raphoe Enterprise Company Limited. He is a farmer.

10. Marshall Robinson (aged 55) 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.

11. Lexie Tinney (aged 72), 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.

12. Michael Griffin (aged 63) 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.

Secretary and registered office

J Mc Dermott
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

Donegal Creameries plc (the Group) announces its financial results for the year ended the 31 December 2010. These results are prepared by Donegal Creameries plc under International Financial Reporting Standards as adopted by the EU.

We are pleased to report a strong overall performance of the Group for the year demonstrating the resilience of our diversified business model. The challenges in our Dairy and Property divisions were offset by a strong performance in Agri-inputs and Associates along with a satisfactory result in Produce.

Turnover from continuing operations was

€126m

up from €113m, an increase of 11.4%.

Turnover from continuing operations was €126m up from €113m, an increase of 11.4%. This was driven by volume growth in liquid milk, animal feed and seed potato, increases in commodity dairy and grain prices and full year inclusion of our 2009 acquisitions.

The Group made an operating profit before property revaluations of €3.4m (2009: €3.0m). The Dairy division result was disappointing producing a segmental result of €0.02m down from €2.2m in 2009. This was primarily due to the significant increase in the cost of milk and a very competitive retail market in the Republic of Ireland. The Agri-input division performed well returning to profitability and producing a segmental result of €0.8m (2009: loss of €2.4m). The Produce division delivered a satisfactory result of €2.6m (2009: €2.9m) despite the poor weather in the final quarter which resulted in some shipments being delayed into early 2011. These shipments will enhance the results for 2011 and we remain confident that our Produce business will continue to grow profitably.

Net Debt at 31 December 2010 was €23.2m up from €20.5m in 2009. This was due mainly to an increase in working capital requirements. The Board remains confident that it has adequate bank facilities in place to meet its future needs.

The Group has delivered adjusted earnings per share of 67.7c, an increase of 38% on 2009. Basic earnings per share were 30.1c up from 0.3c for 2009.

During 2010 our directors have continued with their participation in the ICOS facilitated discussions on the future of the Irish Dairy Industry and will continue to support strategic developments.

During the year Mr. Charles Tindal retired as a director. I would like to thank him for his contributions to our Group over many years and wish him well. I would also like to welcome Mr. Geoffrey McClay who joined the Board in July 2010.

Adjusted operating profit

€3.4m

up from €3.0m, an increase of 14.0%.

Adjusted earnings per share

67.7c

up from 48.9c, an increase of 18.8c.

The Board remains focused on improving shareholder value into the future through the achievement of our long term strategic goals for produce, value added dairy and investments in associates. Our balance sheet remains strong with a net asset value per share of €5.99 (2009: €5.83).

Dividend

The Directors are recommending a final dividend of 9 cent per share. If approved, this dividend will be paid on 25 August 2011 to those shareholders on the register on 5 August 2011. This will bring the total dividend per share to 16 cent, maintaining the 2009 dividend payment.

AGM

The Group's AGM will take place on Wednesday 29 June 2011 at 11.30am in the Mount Errigal Hotel Letterkenny, Co. Donegal.

Geoffrey Vance
Chairman

Managing Director's review

Donegal Creameries plc delivered a solid performance in 2010. Key strategic areas performed well, our Agri-input business returned to profitability and investment in associates continued to perform strongly. The Dairy division, specifically the liquid milk business, had a very challenging year due to a combination of milk price increases and a competitive retail environment. In addition, our investment property portfolio has been prudently revalued downwards in accordance with market guidance. Notwithstanding the latter issues the Group delivered adjusted earnings per share of 67.7c and basic earnings per share of 30.1c.

Turnover
Dairy Division
€58.5m
up from €46.4m,
an increase of 26%.

During the year a range of organic products were launched and **excellent growth** was achieved in the **UK retail market** with our **Rumblers brand.**

Dairy Division

Turnover in the Dairy division grew by 26% to €58.5m reflecting commodity milk price increases and strong growth from the Group subsidiary, The Different Dairy Company, which carries on our value added dairy products business. During the year a range of organic products were launched and excellent growth was achieved in the UK retail market with our Rumblers brand. The segmental result fell by €2.16m reflecting the very competitive liquid milk market in Ireland and higher farm-gate milk prices.

During 2010 we continued our focus on the UK retail and foodservice market. Plans to expand the capacity for Chef in a Box Limited were finalised and have been operational since April 2011. In addition, we acquired a controlling interest in Bio Green Foods Limited in January 2011. Based in Middlesex, this business produces premium drinking yogurts and a range of ethnic dairy products. This acquisition enhances our platform for niche value added dairy products in the UK market.

At milk producer level, the significant improvement in milk prices was welcomed and overdue. As outlined in the past, Donegal Creameries will continue to pursue strategies and relationships to ensure the sustainability of its milk producers, whilst meeting the business needs of the Group.

Managing Director's review

We acquired a controlling interest in **Bio Green Foods Limited** in January 2011. Based in Middlesex, this business produces premium drinking yogurts and a range of ethnic dairy products. This acquisition **enhances our platform for niche value added dairy products in the UK market**.

Turnover
Agri-Inputs

€39.7m

up from €37.0m,
an increase of 7%.

Our Produce business remains a key area of focus, **with a strong pipeline** of new varieties for trial and a **growing sales platform** in our **key global markets**.

Agri-Inputs

We are pleased to report that the Agri-inputs business improved significantly during 2010. Turnover increased by 7% to €39.7m delivering a segmental result of €0.8m. The Smyth's speciality feeds business performed well and our retail stores business has improved, however, it continues to operate in a very challenging environment.

Produce

Our Produce business is very dependent on the last quarter of each year to deliver its annual result. The last six weeks of 2010 were very challenging due to adverse weather conditions in our key production areas of Scotland, Ireland and Holland. This impacted on both the harvesting of organic vegetables and the shipping of seed potato. As a result over 3,000 tonnes of seed was not shipped until early 2011 and a portion of our organic vegetable crop was unfortunately lost.

This resulted in an 8% decline in revenue to €26.5m and a reduction in the segmental result from €2.9m to €2.6m. However the 2011 result for this division will be boosted by the increased tonnage in January. Our Produce business remains a key area of focus, with a strong pipeline of new varieties for trial and a growing sales platform in our key global markets. We remain confident of this division's ability to deliver double digit growth going forward.

Property and Investments

As planned there were no sales or acquisitions of property during the year. Following professional advice we have reduced the carrying value of our investment properties by €4.2m at year end. Rental income is satisfactory and there are no current plans to dispose of any properties in 2011.

Managing Director's review

Share of results from associates

€3.8m

up from €2.7m, an increase of 41%.

Associates

Share of results from associates in 2010 was €3.8m (2009: €2.7m). The Group has a 35% shareholding in Monaghan Middlebrook Mushrooms. This business is in the final stages of a €100m capital investment program to consolidate its position as Europe's leading mushroom producer. It's acquisition in Canada, made in late 2009, is performing well and the business continues to evaluate acquisition and growth opportunities. Our share of associate property investments have been revalued downwards by €0.4m.

Finance

The Group has committed bank facilities of €28.3m, with €5.1m of the facilities undrawn at year end. Loan repayments in 2010 were €3.35m and net debt at 31 December 2010 was €23.2m, up by €2.7m, mainly reflecting the higher working capital requirements in the Group. Interest paid during the year was €0.7m (2009:€1.0m). Discussions are at an advanced stage with our principal banker with regard to refinancing the Group's €11m revolving debt facility which falls due in September 2011 and it is anticipated that new arrangements will come into effect in the third quarter of this year.

Outlook

Notwithstanding the challenging economic climate, Donegal Creameries' diversified portfolio will continue to deliver value to shareholders in the future. Our key strategic areas are performing well and we will continue to evaluate acquisition and investment opportunities consistent with our key strategic focus areas. The business has made a satisfactory start to the current year and continues to take proactive steps to develop a successful future.

Finally, I would like to thank our team for their continued commitment in a challenging economy. In addition I continue to appreciate the support of my Board and senior management colleagues.

Ian Ireland
Managing Director

Notwithstanding the challenging economic climate, Donegal Creameries' diversified portfolio **will continue to deliver value to shareholders in the future.** Our key strategic areas are performing well and we will continue to evaluate acquisition and investment opportunities consistent with our **key strategic focus areas**.

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.

Corporate Social Responsibility

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

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.**

Corporate Governance

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

The environment

At a minimum, the Group is committed to complying with all environmental legislative and regulatory requirements in our operations which are located in six countries. Donegal 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.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

The Group is 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 agribusiness segment and the leasing, development and sales of property.

Business review

Turnover from continuing operations increased by 11.4% to €126.2 million (2009: €113.3 million). 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 €0.75 million during 2010 in comparison with a loss of €2.0 million in 2009, or an adjusted operating profit of €3.4 million in 2010 and €3.0 million in 2009 before the impact of devaluation of investment properties in Group & associates, the related deferred tax and CGT rate change in 2009. Profit before tax increased from €0.05 million to €2.67 million driven by growth in agri-input division and associates, full year inclusion of our 2009 acquisitions and despite the challenges in the dairy division and devaluation of investment properties in both the Group and associated companies. Earnings per share of 30.1 cent increased from earnings per share of 0.3 cent in 2009. Net debt at 31 December 2010 stood at €23.2 million compared to shareholders funds of €61.6 million. In monitoring performance the directors and management have regard to a range of key performance indicators (KPIs), including the following:

Financing KPI's	2010	2009	Change
EBITDA	**€5.70m**	€3.45m	Up 65%
EBITDA Margin	**4.5%**	3.0%	Up 150 bps
Operating loss	**(0.75m)**	(2.00m)	Down 62.6%
Profit before tax	**2.67m**	0.05m	Up 2.62m
Net debt (including overdrafts)	**23,184**	20,482	Up 13.2%
Net assets	**61.6m**	60.0m	Up 2.3%
Return on capital employed	**4.97%**	0.03%	Up 494 bps

Profits, dividends and reserves

Profit for the financial year amounted to €3.06 million (2009: profit €0.2 million). A final dividend for 2009 of 9.0 cent per share was paid on 27 August 2010. An interim dividend for 2010 of 7.0 cent per share was paid on 7 December 2010. The Directors are recommending a final dividend of 9.0 cent per share. If approved, this dividend will be paid on 25 August 2011 to those shareholders on the register on 5 August 2011.

The results for the financial year ended 31 December 2010 are set out in detail on pages 29 to 80.

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 17 to 21 sets out the policies and approach to risks adopted by the Group and the related internal control procedures and responsibilities.

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

Going Concern
The directors have reviewed the Group's business plan and other relevant information and have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. 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 6 to 11.

Events since the year end
On 5 January 2011, the Group acquired a controlling interest in Bio Green Foods Limited a UK incorporated company which manufactures yogurt drinks.

Board of Directors
The directors of the Company on 13 April 2011 are listed on pages 2 and 3. Patrick Kelly Jnr retires by rotation and has been chosen at the area electoral meetings for re-election as director at the Annual General Meeting. Frank Browne has also been chosen at the area electoral meeting for election as director at the Annual General Meeting. Ian Ireland, Matt McNulty and Ivan Grier also retire by rotation and are eligible for re-election 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 2010, 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 13 April 2011, the Company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
Goodbody Stockbrokers Nominees Limited	693,010	6.74%

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 product ranges for the Irish, UK and European markets.

Directors' report continued

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

Auditor
The auditor, KPMG, has expressed its willingness to be re-appointed in accordance with section 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 33 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 Mount Errigal Hotel, Letterkenny, Co. Donegal on 29 June 2011. 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

13 April 2011

Corporate Governance report

Maintaining high standards of corporate governance continues to be a priority of the directors of Donegal Creameries plc. The 2010 Revised UK Corporate Governance Code (formally The Combined Code) will be reviewed and implemented during 2011. The Combined Code is the foundation on which the corporate governance policy is based.

The Board has reviewed the Combined Code ("the Code") and it is Group policy to apply all of the relevant main and supporting principles of good governance in the Code.

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.

The 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 nine 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 2010 and are held on a periodic basis and as requested by individual directors.

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

Corporate Governance report continued

The directors are given access to independent professional advice at the Group's expense, when the directors deem it 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.

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

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

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.

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 Board and 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.

Relations with shareholders
The Board and management maintain an ongoing dialogue with the Company's shareholders on strategic issues. The Chairman and the Managing Director give feedback to the Board on issues raised with them by the shareholders. All directors normally attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

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 Combined 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 2010, 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 and the Audit Committee.

Ten meetings of the Board, two meetings of the Remuneration Committee and six meetings of the Audit Committee were held during the year ended 31 December 2010 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	10	10	-	-	-	-	-	-
Ian Ireland	10	10	-	-	-	-	-	-
Francis Devenney	10	9	-	-	-	-	1	1
Ivan Grier	10	10	2	2	-	-	-	-
John McDermott	10	10	-	-	-	-	-	-
Patrick Kelly Jnr	10	10	-	-	6	6	-	-
Matt McNulty	10	8	2	2	6	5	-	-
Marshall Robinson	10	10	-	-	1	1	1	1
Charles Tindal	5	5	-	-	-	-	1	1
Lexie Tinney	10	8	2	2	-	-	-	-
Norman Witherow	10	10	-	-	5	5	-	-
Michael Griffin	7	4	-	-	-	-	-	-
Geoffrey McClay	5	5	-	-	-	-	-	-

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. Ivan Grier acted as Chairman of the Committee until 14 October 2010 and was replaced by Norman Witherow from that date. 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: Patrick Kelly Jnr. (Chairman), Marshall Robinson and Matt McNulty. Marshall Robinson replaced Norman Witherow on 14 October 2010. The Committee held six formal meetings during 2010. 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 the external auditor is maintained, including the review of all non-audit services provided.

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 2010 the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for 2010, 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 2010;
- 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

13 April 2011

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), who replaced Ivan Grier on 14 October 2010.

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 25 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 page 24 and 25 and details of directors' pensions are set out on page 23.

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.

	2010 €	2009 €
Salaries and benefits		
Basic salary	**366,843**	370,060
Benefits (1)	**37,422**	38,777
	404,265	408,837
Performance related		
Annual incentives (2)	**129,309**	118,000
Pension charge (3)	**68,144**	68,741
Total executive directors' remuneration	**601,718**	595,578
Average number of executive directors	**2**	2
Average annual basic salary per executive director	**183,422**	185,030

No share options were granted during the year. See below and note 25 of the financial statements.

Non executive directors

	2010 €	2009 €
Fees and other emoluments		
Fees (4)	**169,705**	164,438
Other emoluments and benefits	**1,827**	2,000
	171,532	166,438
Other remuneration	**-**	-
Total non-executive directors' remuneration	**171,532**	166,438
Average number of non-executive directors	**10**	9
Total directors' remuneration	**773,250**	762,016

In addition, a charge of €58,000 (2009: €71,000) 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 Ten non-executive directors received fees in 2010 (2009: Nine).

Report of the remuneration committee continued

	Basic salary €	Incentive bonus €	Benefits €	Pension & other related costs €	2010 Total €	2009 Total €
Executive directors						
I Ireland	262,343	97,959	23,685	52,469	**436,456**	429,057
J McDermott	104,500	31,350	13,737	15,675	**165,262**	166,521
	366,843	129,309	37,422	68,144	**601,718**	595,578

	Basic salary €	Fees €	Incentive bonus €	Benefits €	Pension & other related costs €	2010 Total €	2009 Total €
Non-executive directors							
G Vance	42,943	-	-	-	-	**42,943**	43,320
L Tinney	13,567	-	-	1,827	-	**15,394**	18,172
M McNulty	17,804	-	-	-	-	**17,804**	19,752
N Witherow	14,064	-	-	-	-	**14,064**	14,190
F Devenney	12,868	-	-	-	-	**12,868**	12,978
I Grier	13,567	-	-	-	-	**13,567**	16,172
C Tindal (resigned 1 July 2010)	6,784	-	-	-	-	**6,784**	13,178
M Robinson	13,167	-	-	-	-	**13,167**	12,978
P Kelly Jnr	15,563	-	-	-	-	**15,563**	15,698
Michael Griffin (appointed 1 March 2010)	13,093	-	-	-	-	**13,093**	-
G McClay (appointed 1 July 2010)	6,285	-	-	-	-	**6,285**	-
	169,705	-	-	1,827	-	**171,532**	166,438

Directors' share options

Details of movements on outstanding options are set out below:

	At 31 December 2009	Granted in 2010	Exercised in 2010	At 31 December 2010	Average Option Price 2010
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 2010 was €4.00 (2009: €2.15) and the range during 2010 was €1.90 to €4.70 (2009: €1.50 to €2.90).

Options are exercisable between the third anniversary of the date of grant and the seventh anniversary of the date of grant. See note 25 of the financial statements for further information in this regard.

Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2010 in the ordinary shares of the Company at 31 December 2009 (or date of appointment, if later) and 31 December 2010 are set out below:

	31 December 2010	31 December 2009
Directors:		
G Vance	**175,439**	175,439
I Ireland	**105,000**	99,182
F Devenney	**79,853**	79,853
I Grier	**45,243**	45,243
J McDermott	**9,000**	4,000
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	**37,221**	37,221
G McClay	**12,107**	4,107
M Griffin	**15,000**	-

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	**Ian Ireland**
Director	Director

13 April 2011

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

We have audited the Group and Company financial statements (''financial statements'') of Donegal Creameries Plc for the year ended 31 December 2010 which comprise the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Cash Flow Statements, the Group and Company Statements 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 reporting 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 Company statement of financial position 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 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 judgements 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 2010 and of its profit for the year then ended;
- the 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 Company's affairs as at 31 December 2010; 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 statement of financial position 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 Statement of Financial Position 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 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 may require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditor
13 April 2011

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Continuing operations			
Revenue	6	**126,189**	113,271
Cost of sales		**(103,274)**	(93,305)
Gross profit		**22,915**	19,966
Distribution expenses		**(9,227)**	(8,881)
Administrative expenses		**(10,904)**	(8,613)
Other expenses	7	**(3,536)**	(4,480)
Loss from operating activities		**(752)**	(2,008)
Finance income		**1,549**	1,325
Finance expenses		**(1,886)**	(1,952)
Net finance expense	10	**(337)**	(627)
Share of profit of associates (net of tax)		**3,755**	2,681
Profit before income tax		**2,666**	46
Income tax credit/(expense)	11	**390**	(29)
Profit for the year		**3,056**	17
Other comprehensive income			
Foreign currency translation differences for foreign operations		**(124)**	150
Currency translation adjustment in associate undertaking		**205**	170
Revaluation of property on reclassification to investment property	12	**388**	-
Tax on revaluation of property on reclassification to investment property	17	**(97)**	-
Reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense		**(463)**	(956)
Tax on reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense	17	**106**	186
Defined benefit plan actuarial gain	24	**179**	323
Tax on defined benefit actuarial gain	17	**(29)**	(39)
Total comprehensive income for the year		**3,221**	(149)
Profit attributable to:			
Equity holders of the Company		**3,050**	31
Non-controlling interest		**6**	(14)
		3,056	17
Total comprehensive income attributable to:			
Equity holders of the Company		**3,201**	(168)
Non-controlling interest		**20**	19
		3,221	(149)
Earnings per share			
Basic earnings per share (euro cent)	22	**30.10c**	0.3c
Diluted earnings per share (euro cent)	22	**29.90c**	0.3c

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Geoffrey Vance
Director

Ian Ireland
Director

Consolidated statement of financial position
As at 31 December 2010

	Note	2010 €'000	2009 €'000
Assets			
Property, plant and equipment	12	**18,094**	16,000
Investment property	14	**31,053**	36,885
Goodwill	13	**2,236**	2,196
Intangible assets	13	**424**	471
Investment in associates	15	**17,685**	14,109
Other investments	16	**1,671**	2,111
Prepayment	19	**194**	195
Total non-current assets		**71,357**	71,967
Inventories	18	**6,579**	5,706
Trade and other receivables	19	**36,397**	28,625
Total current assets		**42,976**	34,331
Total assets		**114,333**	106,298
Equity			
Share capital	21	**1,337**	1,337
Share premium	21	**2,975**	2,975
Other reserves		**750**	691
Retained earnings		**55,667**	54,090
Total equity attributable to equity holders of the Company		**60,729**	59,093
Non-controlling interest		**914**	923
Total equity		**61,643**	60,016
Liabilities			
Loans and borrowings	23	**3,709**	16,805
Trade and other payables	26	**-**	145
Derivatives	26	**1,343**	811
Employee benefits	24	**528**	736
Deferred tax liabilities	17	**5,394**	6,091
Total non-current liabilities		**10,974**	24,588
Trade and other payables	26	**21,988**	17,677
Bank overdraft	20	**6,382**	339
Loans and borrowings	23	**13,108**	3,351
Current tax		**238**	327
Total current liabilities		**41,716**	21,694
Total liabilities		**52,690**	46,282
Total equity and liabilities		**114,333**	106,298

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Geoffrey Vance
Director

Ian Ireland
Director

Company statement of financial position
As at 31 December 2010

	Note	2010 €'000	2009 €'000
Assets			
Property, plant and equipment	12	**4,266**	1,994
Investment property	14	**26,243**	32,037
Intangible assets	13	**145**	219
Investment in associates	15	**8,507**	8,891
Other investments	16	**4,977**	4,974
Total non-current assets		**44,138**	48,115
Inventories	18	**2,103**	2,210
Trade and other receivables	19	**17,116**	13,484
Cash and cash equivalents	20	**-**	3,492
Current tax		**182**	-
Total current assets		**19,401**	19,186
Total assets		**63,539**	67,301
Equity			
Share capital	21	**1,337**	1,337
Share premium	21	**2,975**	2,975
Revaluation reserve	21	**155**	155
Share option reserve	21	**335**	277
Other reserves		**(159)**	(159)
Retained earnings		**7,293**	11,727
Total equity		**11,936**	16,312
Liabilities			
Loans and borrowings	23	**3,699**	16,801
Derivatives	26	**1,343**	811
Employee benefits	24	**528**	736
Deferred tax liabilities	17	**3,750**	4,449
Total non-current liabilities		**9,320**	22,797
Trade and other payables	26	**26,260**	24,683
Bank overdraft	20	**2,921**	-
Loans and borrowings	23	**13,102**	3,342
Current tax		**-**	167
Total current liabilities		**42,283**	28,192
Total liabilities		**51,603**	50,989
Total equity and liabilities		**63,539**	67,301

The notes on pages 37 to 80 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 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	25	-	-	-	-	-	-	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 37 to 80 are an integral part of these consolidated financial statements.

	Note	Share capital €'000	Share premium €'000	Translation reserve €'000	Reserve for own shares €'000	Revaluation reserves €'000	Fair value reserve €'000	Share option reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
Balance at 1 January 2009		1,337	2,975	(3,181)	(348)	3,279	1,317	206	55,228	60,813	928	61,741
Total comprehensive income for the year												
Profit/(loss)		-	-	-	-	-	-	-	31	31	(14)	17
Other comprehensive income												
Foreign currency translation differences for foreign operations		-	-	117	-	-	-	-	-	117	33	150
Currency translation adjustment in associate undertaking		-	-	-	-	-	-	-	170	170	-	170
Reclassification of previous gain on fair value of available for sale financial asset, net of tax		-	-	-	-	-	(770)	-	-	(770)	-	(770)
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	-	284	284	-	284
Other comprehensive income		-	-	117	-	-	(770)	-	454	(199)	33	(166)
Total comprehensive income for the year		-	-	117	-	-	(770)	-	485	(168)	19	(149)
Transactions with owners recorded directly in equity												
Contributions by and distributions to owners												
Dividends paid		-	-	-	-	-	-	-	(1,623)	(1,623)	(26)	(1,649)
Shared based payments	25	-	-	-	-	-	-	71	-	71	-	71
Total contributions by and distributions to owners		-	-	-	-	-	-	71	(1,623)	(1,552)	(26)	(1,578)
Changes in ownership interests in subsidiaries that do not result in the loss of control												
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	2	2
Balance at 31 December 2009		**1,337**	**2,975**	**(3,064)**	**(348)**	**3,279**	**547**	**277**	**54,090**	**59,093**	**923**	**60,016**

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

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

	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 2009		1,337	2,975	(348)	189	155	206	14,391	18,905
Loss for the year		-	-	-	-	-	-	(1,394)	(1,394)
Defined benefit plan actuarial gains and (losses), net of tax		-	-	-	-	-	-	353	353
Total comprehensive income for the year		-	-	-	-	-	-	(1,041)	(1,041)
Dividends to equity holders		-	-	-	-	-	-	(1,623)	(1,623)
Share-based payments	25	-	-	-	-	-	71	-	71
Balance at 31 December 2009		**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	25	-	-	-	-	-	58	-	58
Balance at 31 December 2010		**1,337**	**2,975**	**(348)**	**189**	**155**	**335**	**7,293**	**11,936**

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Cash flows from operating activities			
Profit for the period		**3,056**	17
Adjustments for:			
Depreciation	12	**2,330**	2,484
Amortisation of intangibles	13	**158**	73
Non-cash defined benefit scheme settlement gain	24	**-**	(15)
Change in fair value of investment property	14	**4,191**	5,025
Defined benefit pension scheme charge		**139**	135
Net finance expense		**337**	627
Share of profit of associates		**(3,755)**	(2,681)
Gain on sale of property, plant and equipment	7	**(30)**	(37)
Equity-settled share-based payment transactions	25	**58**	71
Income tax (credit)/expense	11	**(390)**	29
Change in inventories		**(842)**	4,903
Change in trade and other receivables		**(7,417)**	561
Change in trade and other payables		**4,296**	(751)
		2,131	10,441
Interest paid		**(662)**	(1,016)
Defined benefit pension contributions paid		**(221)**	(236)
Income tax paid		**(409)**	(273)
Net cash from operating activities		**839**	8,916
Cash flows from investing activities			
Interest received		**127**	119
Dividends received		**3**	27
Proceeds from sale of property, plant and equipment		**70**	84
Proceeds from repayment of loan stock in associate	15	**780**	780
Acquisition of subsidiary		**-**	(212)
Deferred consideration payable on acquisition of subsidiary		**(184)**	-
Acquisition of property, plant and equipment		**(2,323)**	(2,228)
Acquisition of intangibles		**(107)**	(118)
Acquisition of other investments	16	**(404)**	(22)
Net cash used in investing activities		**(2,038)**	(1,570)
Cash flows from financing activities			
Repayment of borrowings		**(3,342)**	(3,868)
Payment of finance lease liabilities		**(10)**	(49)
Dividend paid to non-controlling interest		**(29)**	(26)
Dividends paid	21	**(1,623)**	(1,623)
Net cash used in financing activities		**(5,004)**	(5,566)
Net (decrease)/increase in cash and cash equivalents		**(6,203)**	1,780
Cash and cash equivalents at 1 January		**(339)**	(2,655)
Effect of exchange rate fluctuations on cash held		**160**	536
Cash and cash equivalents at 31 December	20	**(6,382)**	(339)

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Company statement of cash flows
for the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Cash flows from operating activities			
Loss for the year		**(2,961)**	(1,394)
Adjustments for:			
Depreciation	12	**370**	411
Amortisation	13	**74**	43
Change in fair value of investment property	14	**3,166**	3,823
Net finance expense		**160**	692
Gain on sale of property, plant and equipment		**(8)**	(4)
Equity-settled share-based payment transactions	25	**58**	71
Income tax credit		**(723)**	(26)
Defined benefit pension scheme charge		**139**	135
Change in inventories		**107**	1,540
Change in trade and other receivables		**(3,266)**	4,648
Change in trade and other payables		**1,584**	(8,358)
		(1,300)	1,581
Interest paid		**(534)**	(896)
Defined benefit pension scheme contribution		**(221)**	(236)
Income tax (paid)/received		**(360)**	27
Net cash from operating activities		**(2,415)**	476
Cash flows from investing activities			
Interest received		**74**	71
Dividend received		**563**	565
Proceeds from sale of property, plant and equipment		**26**	6
Proceeds from repayment of loan in associate	15	**780**	780
Acquisition of property, plant and equipment		**(72)**	(361)
Acquisition of other investments	16	**(404)**	-
Net cash used in investing activities		**967**	1,061
Cash flows from financing activities			
Repayment of borrowings		**(3,342)**	(3,868)
Dividends paid	21	**(1,623)**	(1,623)
Net cash used financing activities		**(4,965)**	(5,491)
Net decrease in cash and cash equivalents		**(6,413)**	(3,954)
Cash and cash equivalents at 1 January		**3,492**	7,446
Cash and cash equivalents at 31 December	20	**(2,921)**	3,492

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Notes to the consolidated financial statements continued

1. Reporting entity

Donegal 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 2010 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 13 April 2011.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2010 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 2010.

(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 2010, the Group has changed its accounting policies in the following areas:

- As part of *Improvements to IFRSs* (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 *Leases* regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments) and the Group recognise assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognised in retained earnings. The directors confirm that these amendments to IAS 17 adopted in the Group's financial statements for the annual period beginning 1 January 2010 did not have a material impact on the consolidated financial statements application.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2009) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, became mandatory for the Group's 2010 consolidated financial statements, did not have any impact on the consolidated financial statements application.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected at grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations.

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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(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).

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.

(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.

From 1 January 2010, the group has applied IFRS3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share. 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 acquire; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(f) Intangible assets continued

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.

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.

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 75 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 every twelve months.

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

(h) Impairment

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

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

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

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

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

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

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

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

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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(i) Employee benefits continued

(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.

(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, calculated using the effective interest rate method, 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.

(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 re-presented 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.

Notes to the consolidated financial statements continued

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) 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 – Financial Instrument Disclosures – Transfer of Financial Assets, effective 1 July 2011;
- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters, effective 1 July 2011;
- Amendment to IFRIC 14 – Prepayment of a minimum funding requirement, effective on 1 January 2011; and
- Amendments to IAS 24: Related Party Disclosures, effective 1 January 2011.

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.

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 every year. 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. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(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 information available at the reporting date.

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

The fair value of trade and other receivables 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.

Notes to the consolidated financial statements continued

5. Financial risk management continued

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. The Agri-inputs division charges interest on overdue balances at the rate of 1% per month.

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 2010 the Group had committed bank facilities of €28.3 million, including an overdraft facility of €11.5 million for working capital requirements. Total facilities undrawn at year end were €5.1m million. Discussions are at an advanced stage with our principal banker with regard to refinancing the Group's €11m revolving debt facility which falls due in September 2011 and it is anticipated that new arrangements will come into effect in the third quarter of this year.

Market risk

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

At times, the Group buys forward contracts in order to manage market risks although the use of such instruments is limited. 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 interests and share options reserves) which amounted to €63.2 million at 31 December 2010 (2009: €61.3 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.

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.

Notes to the consolidated financial statements continued

6. Segment reporting continued

Group

	Dairy		Agri-inputs		Produce		Property/other investments		Other		Consolidated	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
External revenues	58,481	46,397	39,688	37,041	26,501	28,931	-	18	1,519	884	126,189	113,271
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Segment result	20	2,183	795	(2,393)	2,572	2,928	(4,002)	(4,791)	60	271	(555)	(1,802)
Share of results of associates											3,755	2,681
Net finance costs											(337)	(627)
Income tax benefit/(expense)											390	(29)
Share option benefits											(58)	(71)
Current pension service cost											(139)	(135)
Profit for the year											3,056	17
Segment assets	18,598	13,970	26,560	24,079	17,795	14,298	32,730	39,089	965	753	96,648	92,189
Investments in associates	-	-	-	-	-	-	-	-	-	-	17,685	14,109
Total assets	18,598	13,970	26,560	24,079	17,795	14,298	32,730	39,089	965	753	114,333	106,298
Segment liabilities	6,945	6,232	7,694	5,948	8,386	6,304	100	121	444	355	23,569	18,960
Bank overdraft (unallocated)	-	-	-	-	-	-	-	-	-	-	6,382	339
Loans and borrowings (unallocated)	-	-	-	-	-	-	-	-	-	-	16,817	20,156
Deferred tax (unallocated)	-	-	-	-	-	-	-	-	-	-	5,394	6,091
Employee benefits (unallocated)	-	-	-	-	-	-	-	-	-	-	528	736
Total liabilities	6,945	6,232	7,694	5,948	8,386	6,304	100	121	444	355	52,690	46,282
Capital expenditure	1,878	1,341	311	606	214	343	-	-	27	50	2,430	2,340
Depreciation and amortisation	925	921	1,325	1,371	213	231	-	-	25	34	2,488	2,557
Change in fair value of investment property and other assets	-	-	-	-	-	-	5,035	6,202	-	-	5,035	6,202

	Island of Ireland		Europe		Rest of world		Consolidated	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Revenue from external customers	121,734	112,282	4,039	989	416	-	126,189	113,271
Segment assets	112,526	105,255	1,142	828	665	215	114,333	106,298
Capital expenditure	2,289	2,331	90	9	51	-	2,430	2,340

7. Other (expenses)/income

	2010 €'000	2009 €'000
Income from investment property rentals	625	599
Profit on disposal of property, plant and equipment	30	37
	655	636
Change in fair value of investment property	(4,191)	(5,025)
Other expenses	-	(91)
	(3,536)	(4,480)

8. Personnel expenses

Group

	2010 €'000	2009 €'000
Wages and salaries	10,492	9,232
Social welfare costs	1,076	1,085
Pension costs (note 24)	447	519
Share option benefits (note 25)	58	71
	12,073	10,907

Employees

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

	2010 Number	2009 Number
Production	142	120
Stores	75	80
Transport	38	34
Administration	72	70
	327	304

Company

	2010 €'000	2009 €'000
Wages and salaries	2,442	2,329
Social welfare costs	250	372
Pension costs	173	253
Share option benefits	58	71
	2,923	3,025

Employees

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

	2010 Number	2009 Number
Stores	45	51
Administration	20	20
	65	71

Notes to the consolidated financial statements continued

9. Statutory and other information

	2010 €'000	2009 €'000
Profit before taxation has been arrived at after charging;		
Depreciation	**2,330**	2,484
Auditor's remuneration:		
- audit fees	**108**	108
- taxation services	**39**	39
Amortisation of prepayments	**1**	1
Amortisation of intangible assets	**158**	73
Impairment of loan to associate	**-**	80
Impairment of available for sale investment	**844**	1,177

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

10. Finance income and expense

Recognised in profit or loss

	2010 €'000	2009 €'000
Interest income on bank deposits	**121**	107
Interest income on associate loan stock	**38**	65
Net foreign exchange gain	**659**	687
Expected rate of return on pension scheme assets	**175**	135
Dividends received	**3**	27
Interest charged on trade receivables	**109**	112
Reversal of impairment loss on trade receivables	**86**	-
Reversal of impairment of loan to associate	**358**	192
Finance income	**1,549**	1,325
Interest expense on bank loans and overdraft	**(631)**	(951)
Impairment of loan to associate	**-**	(80)
Change in fair value of option granted over investments	**(533)**	(508)
Interest on pension scheme liabilities	**(191)**	(179)
Impairment loss on trade receivables	**(150)**	(13)
Reclassification of previous gain on fair value of available for sale financial asset – transfer from other comprehensive income	**463**	956
Impairment of available for sale investment	**(844)**	(1,177)
Finance expense	**(1,886)**	(1,952)
Net finance expense recognised in profit or loss	**(337)**	(627)

Recognised directly in other comprehensive income

	2010 €'000	2009 €'000
Foreign currency translation differences for foreign operations	**(124)**	150
Reclassification of previous gain on fair value of available for sale financial asset – transfer to finance expense	**(463)**	(956)
Income tax on finance income and expense recognised directly in other comprehensive income	**106**	186
Finance expense recognised in other comprehensive income, net of tax	**(481)**	(620)
Finance income recognised in other comprehensive income, net of tax		
Recognised in:		
Fair value reserve	**(357)**	(770)
Translation reserve	**(124)**	150
	(481)	(620)

11. Income tax expense

	2010 €'000	2009 €'000
Current tax expense		
Current year	**547**	527
Adjustment for prior years	**(220)**	(55)
	327	472
Deferred tax expense		
Origination and reversal of temporary differences	**(717)**	(1,025)
Change in rate	**-**	582
	(717)	(443)
Income tax (credit)/expense excluding share of income tax of associates	**(390)**	29

The tax charge in future periods will be impacted by any rate changes to the corporation tax rate in force in the countries in which it operates. In the UK, the Finance Bill 2010 included a reduction in the rate of corporate tax from 28% to 27% and this was substantively enacted on 21 July 2010. The rate reduction applies from 1 April 2011. Deferred tax balances must be recognised at the future rate applicable when the balance is expected to unwind. The rate reduction is not reflected in the closing tax balance at the year end. The UK 2010 Emergency Budget announced further reductions in the corporation tax rate of 1% annually, reaching 24% on 1 April 2014 and this is not reflected in the closing deferred tax balance.

Tax reconciliation	2010 €'000	2009 €'000
Profit for year before tax	**2,666**	46
Adjustment for share of profit of associates	**(3,755)**	(2,681)
Profit for year before tax, excluding share of profit of associates	**(1,089)**	(2,635)
Tax at 12.5% (2009: 12.5%)	**(136)**	(329)
Depreciation in excess of capital allowances	**113**	161
Expenses not allowable for tax purposes	**335**	198
Passive income taxed at higher rate	**44**	262
Adjustment for capital gains tax	**-**	26
Deductions allowable for tax	**(515)**	(246)
Profit on sale of assets	**(4)**	(9)
Adjustment for prior periods	**(220)**	(55)
Origination and reversal of temporary differences	**(7)**	21
Income tax (benefit)/ expense	**(390)**	29

Income tax recognised directly in other comprehensive income		2010 €'000	2009 €'000
Revaluation of property, plant and equipment before transfer to investment property		**97**	-
Available-for-sale financial assets		**(106)**	(186)
Actuarial gains		**29**	39
Total income tax recognised directly in other comprehensive income	17	**20**	(147)

Notes to the consolidated financial statements continued

12. Property, plant and equipment

Group	Land and buildings €'000	Plant and equipment €'000	Fixtures and fittings €'000	Motor vehicles & tanks €'000	Total €'000
Cost or deemed cost					
Balance at 1 January 2009	14,009	18,740	2,657	3,923	39,329
Additions	360	1,374	319	175	2,228
Arising on acquisition of subsidiary	-	-	41	-	41
Disposals	-	(265)	(1)	(108)	(374)
Effect of movements in exchange rates	61	36	11	10	118
Balance at 31 December 2009	14,430	19,885	3,027	4,000	41,342
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 14)	2,628	-	-	-	2,628
Reclassification to investment property (note 14)	(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**
Depreciation and impairment losses					
Balance at 1 January 2009	3,921	14,663	1,853	2,684	23,121
Depreciation for the year	447	1,221	394	422	2,484
Disposals	-	(235)	(1)	(92)	(328)
Effect of movements in exchange rates	12	34	10	9	65
Balance at 31 December 2009	4,380	15,683	2,256	3,023	25,342
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**
Carrying amounts					
At 1 January 2009	10,088	4,077	804	1,239	16,208
At 31 December 2009	10,050	4,202	771	977	16,000
At 1 January 2010	10,050	4,202	771	977	16,000
At 31 December 2010	**11,761**	**4,765**	**663**	**905**	**18,094**

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 23). At 31 December 2010 the net carrying amount of leased plant and machinery was €10,000 (2009: €13,000). Depreciation on leased plant and machinery was €13,000 (2009: €53,000).

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.

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 2010 was €3.7 million (2009: €1.1 million).

Company	Land and buildings €'000	Plant and equipment €'000	Fixtures and fittings €'000	Motor vehicles €'000	Total €'000
Cost or deemed cost					
Balance at 1 January 2009	2,589	525	1,734	625	5,473
Additions	194	98	34	35	361
Disposals	-	-	(1)	(41)	(42)
Balance at 31 December 2009	2,783	623	1,767	619	5,792
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**
Depreciation and impairment losses					
Balance at 1 January 2009	1,273	458	1,228	468	3,427
Depreciation for the year	150	19	180	62	411
Disposals	-	-	(1)	(39)	(40)
Balance at 31 December 2009	1,423	477	1,407	491	3,798
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**
Carrying amounts					
At 1 January 2009	1,316	67	506	157	2,046
At 31 December 2009	1,360	146	360	128	1,994
At 1 January 2010	1,360	146	360	128	1,994
At 31 December 2010	**3,850**	**109**	**213**	**94**	**4,266**

The carrying value of land not subject to depreciation at 31 December 2010 was €2.8 million (2009: €0.2 million). The Company holds no finance leases (2009: Nil).

Notes to the consolidated financial statements continued

13. Intangible assets

Group	Goodwill €'000	Software €'000	Licenses €'000	Total €'000
Cost				
Balance at 1 January 2009	3,058	443	-	3,501
Additions	-	112	-	112
Arising on acquisition of subsidiary	320	-	39	359
Balance at 31 December 2009	3,378	555	39	3,972
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**
Amortisation and impairment losses				
Balance at 1 January 2009	1,182	50	-	1,232
Amortisation for the year	-	73	-	73
Balance at 31 December 2009	1,182	123	-	1,305
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**
Carrying amounts				
At 1 January 2009	1,876	393	-	2,269
At 31 December 2009	2,196	432	39	2,667
At 1 January 2010	2,196	432	39	2,667
At 31 December 2010	**2,236**	**386**	**38**	**2,660**

Intangible assets are amortised to the statement of comprehensive income over their estimated useful lives as follows: Software – 4 years; Licenses - 75 years.

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.

	2010			2009		
	Dairy €'000	Agri-inputs €'000	Produce €'000	Dairy €'000	Agri-inputs €'000	Produce €'000
Goodwill at 1 January	**1,132**	**1,000**	**64**	876	1,000	-
Additions	**40**	**-**	**-**	256	-	64
Impairment	**-**	**-**	**-**	-	-	-
Goodwill at 31 December	**1,172**	**1,000**	**64**	1,132	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% on those specific businesses to which goodwill is originally derived, 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 2010 as a result of this review (2009: Nil).

Company

	Software €'000
Cost	
Balance at 1 January 2009	280
Additions	-
Balance at 31 December 2009	280
Balance at 1 January 2010	280
Additions	-
Balance at 31 December 2010	**280**
Amortisation and impairment losses	
Balance at 1 January 2009	18
Amortisation for the year	43
Balance at 31 December 2009	61
Balance at 1 January 2010	61
Amortisation for the year	74
Balance at 31 December 2010	**135**
Carrying amounts	
At 1 January 2009	262
At 31 December 2009	219
At 1 January 2010	219
At 31 December 2010	**145**

Notes to the consolidated financial statements continued

14. Investment property

Group

	Note	2010 €'000	2009 €'000
Balance at 1 January		**36,885**	41,758
Change in fair value		**(4,191)**	(5,025)
Reclassification to property, plant and equipment	12	**(2,628)**	-
Reclassification from property, plant and equipment	12	**920**	-
Effect of movement in exchange rates		**67**	152
Balance at 31 December		**31,053**	36,885

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

Company

	Note	2010 €'000	2009 €'000
Balance at 1 January		**32,037**	35,860
Change in fair value		**(3,166)**	(3,823)
Reclassification to property plant and equipment	12	**(2,628)**	-
Balance at 31 December		**26,243**	32,037

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.

	2010 Yields	2009 Yields
Land	**2%-3%**	4%-5%
Student residences	**6%-7%**	5%-6%

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. When rent reviews or lease renewals are pending with anticipated revisionary increases it is assumed that all notices, and when appropriate counter notices, have been served validly and within appropriate time.

15. Investment in associates

Group

The Group's share of after tax profits in its associates for the year was €3,960,000 (2009: €2,851,000).

	2010 Interest in associate €'000	2010 Loans to associate €'000	2010 Total €'000	2009 Interest in associate €'000	2009 Loans to associate €'000	2009 Total €'000
Balance at 1 January	**10,481**	**3,628**	**14,109**	7,569	4,231	11,800
Share of increase in net assets after tax	**3,960**	**-**	**3,960**	2,851	-	2,851
Interest charged	**-**	**38**	**38**	-	65	65
Transfer to subsidiary	**-**	**-**	**-**	61	-	61
Repayment of loan stock in associate	**-**	**(780)**	**(780)**	-	(780)	(780)
Reversal of impairment of loan to associate	**-**	**358**	**358**	-	192	192
Impairment	**-**	**-**	**-**	-	(80)	(80)
Balance at 31 December	**14,441**	**3,244**	**17,685**	10,481	3,628	14,109

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

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 2010 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 2010 is €1.9 million (2009: €2.7 million).

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 €1,343,000 (2009: €810,000) is recognised in derivatives in this regard.

During 2010, the Group recognised a net reversal of impairment of €358,000 (2009: €112,000) to the carrying value of loans to associates following a review of the recoverability of those assets. 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 2010 is €0.484m (2009: €0.477m).

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 €481,600 (2009: €281,000) 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:

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

2009	Total assets €'000	Total liabilities €'000	Profit/ (loss) €'000
Investments in associates	118,156	86,510	9,155

Notes to the consolidated financial statements continued

15. Investment in associates continued

Company

	2010 Interest in associate €'000	2010 Loans to associate €'000	2010 Total €'000	2009 Interest in associate €'000	2009 Loans to associate €'000	2009 Total €'000
Balance at 1 January	**5,263**	**3,628**	**8,891**	5,263	4,231	9,494
Interest charged	**-**	**38**	**38**	-	65	65
Repayment of loan stock in associate	**-**	**(780)**	**(780)**	-	(780)	(780)
Reversal of impairment of loan to associate	**-**	**358**	**358**	-	192	192
Impairment	**-**	**-**	**-**	-	(80)	(80)
Balance at 31 December	**5,263**	**3,244**	**8,507**	5,263	3,628	8,891

The movements in the Company balance has been explained above.

16. Other investments

Group

	2010 €'000	2009 €'000
Non-current investments		
Available-for-sale equity investments	**1,671**	2,111

Available-for-sale equity investments include €48,700 quoted shares (2009: €48,300), prize bonds held of €100,000 (2009: €100,000) and €1,522,500 unquoted shares (2009: €1,963,000). 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 €1,522,500 (2009: €1,963,000) 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.

	2010 €'000	2009 €'000
Movement during the year		
Balance at 1 January	**2,111**	3,266
Impairment of available for sale financial assets	**(844)**	(1,177)
Additions	**404**	22
	1,671	2,111

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27.

Company

	2010 €'000	2009 €'000
Non-current investments		
Available-for-sale financial assets	**287**	184
Investments in subsidiaries	**4,690**	4,790
	4,977	4,974

	2010 Available-for-sale investments €'000	2010 Investments in subsidiaries €'000	2010 Total €'000	2009 Available-for-sale investments €'000	2009 Investments in subsidiaries €'000	2009 Total €'000
Movement during the year						
Balance at 1 January	**184**	**4,790**	**4,974**	186	4,893	5,079
Addition of available-for-sale financial assets	**404**	**-**	**404**	-	-	-
Revaluation of available-for-sale financial assets	**-**	**-**	**-**	(2)	-	(2)
Impairment	**(301)**	**(100)**	**(401)**	-	(103)	(103)
Balance at 31 December	**287**	**4,690**	**4,977**	184	4,790	4,974

Available-for-sale equity investments include €49,000 quoted shares (2009: €49,000), prize bonds held of €100,000 (2009: €100,000) and €138,000 unquoted shares (2009: €37,000). 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.

17. Deferred tax assets and liabilities

Group

Unrecognised deferred tax assets

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

	2010 €'000	2009 €'000
Tax losses	**1,619**	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	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Property, plant and equipment	**-**	-	**(1,270)**	(849)	**(1,270)**	(849)
Investment property	**-**	-	**(4,139)**	(5,178)	**(4,139)**	(5,178)
Available-for-sale financial assets	**-**	-	**(93)**	(204)	**(93)**	(204)
Employee benefit plans	**66**	95	**-**	-	**66**	95
Share-based payments	**42**	35	**-**	-	**42**	35
Tax losses carried forward	**-**	10	**-**	-	**-**	10
Deferred tax assets/(liabilities)	**108**	140	**(5,502)**	(6,231)	**(5,394)**	(6,091)
Set off of tax	**(108)**	(140)	**108**	140	**-**	-
Net deferred tax liabilities	**-**	-	**(5,394)**	(6,091)	**(5,394)**	(6,091)

Company

Unrecognised deferred tax assets

The Company had no unrecognised deferred tax assets or liabilities at 31 December 2010 (2009: €Nil).

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Property, plant and equipment	**-**	-	**(610)**	(132)	**(610)**	(132)
Investment property	**-**	-	**(3,245)**	(4,456)	**(3,245)**	(4,456)
Available for sale financial asset	**-**	9	**(3)**	-	**(3)**	9
Share-based payments	**42**	35	**-**	-	**42**	35
Employee benefits	**66**	95	**-**	-	**66**	95
Deferred tax assets/(liabilities)	**108**	139	**(3,858)**	(4,588)	**(3,750)**	(4,449)
Set off of tax	**(108)**	(139)	**108**	139	**-**	-
Net tax liabilities	**-**	-	**(3,750)**	(4,449)	**(3,750)**	(4,449)

Notes to the consolidated financial statements continued

17. Deferred tax assets and liabilities continued

Movement in temporary differences during the year

Group

	Balance 1 Jan 09 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance 31 Dec 09 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance at 31 Dec 10 €'000
Property, plant and equipment	(879)	30	-	**(849)**	(421)	-	**(1,270)**
Investment property	(5,526)	348	-	**(5,178)**	1,136	(97)	**(4,139)**
Available-for-sale financial assets	(445)	55	186	**(204)**	5	106	**(93)**
Employee benefit plans	134	-	(39)	**95**	-	(29)	**66**
Share based payment	26	9	-	**35**	7	-	**42**
Tax losses carried forward	9	1	-	**10**	(10)	-	**-**
	(6,681)	443	147	**(6,091)**	717	(20)	**(5,394)**

Company

	Balance 1 Jan 09 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance 31 Dec 09 €'000	Recognised in profit or loss €'000	Recognised in other compre-hensive income €'000	Balance at 31 Dec 10 €'000
Property, plant and equipment	(131)	(1)	-	**(132)**	(478)	-	**(610)**
Investment property	(4,689)	233	-	**(4,456)**	1,211	-	**(3,245)**
Available for sale financial asset	-	-	9	**9**	(12)	-	**(3)**
Employee benefit plans	134	-	(39)	**95**	-	(29)	**66**
Share based payments	26	9	-	**35**	7	-	**42**
	(4,660)	241	(30)	**(4,449)**	728	(29)	**(3,750)**

18. Inventories

Group

	2010 €'000	2009 €'000
Dairy	**88**	76
Stores including animal feeds	**4,927**	4,686
Packaging and other stocks	**1,452**	944
Biological assets	**112**	-
	6,579	5,706

Inventories impairment

	2010 €'000	2009 €'000
Balance at 1 January	**223**	238
Impairment/(reversal of impairment)	**122**	(15)
Balance at 31 December	**345**	223

In 2010, the impairment of inventories to net realisable value amounted to €122,000 (2009: write back €15,000). The impairment is included in cost of sales. Total inventory costs of €94,500,000 (2009: €69,800,000) were charged to the statement of comprehensive income.

Company

	2010 €'000	2009 €'000
Stores including animal feeds	**2,097**	2,203
Other stocks	**6**	7
	2,103	2,210

Inventories impairment provision

	2010 €'000	2009 €'000
Balance at 1 January	**162**	147
Impairment	**6**	15
Balance at 31 December	**168**	162

In 2010, inventory impairments amounted to €6,000 (2009: €15,000). The movement was included in cost of sales. Total inventory costs of €23,300,000 (2009: €20,500,000) were charged to the statement of comprehensive income.

19. Trade and other receivables

	2010 €'000	2009 €'000
Group		
Current trade and other receivables		
Trade receivables due from related parties	**107**	402
Value added tax	**1,269**	962
Other trade receivables	**32,833**	25,179
Other receivables	**932**	744
Prepayments	**1,256**	1,338
	36,397	28,625
Non-current trade and other receivables		
Long leasehold interest prepaid	**194**	195
	36,591	28,820

	2010 €'000	2009 €'000
Company		
Trade receivables due from related parties	**14,270**	11,005
Other trade receivables	**2,561**	2,178
Prepayments	**285**	301
	17,116	13,484

The Group and Company exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

Notes to the consolidated financial statements continued

20. Cash and cash equivalents

Group	2010 €'000	2009 €'000
Bank loans and overdrafts due within one year	**(6,382)**	(339)
Cash and cash equivalents at 31 December	**(6,382)**	(339)

Company	2010 €'000	2009 €'000
(Bank loans and overdrafts)/ bank & cash balances	**(2,921)**	3,492

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 27.

21. Capital and reserves

Share capital and share premium

	Ordinary shares 2010	Ordinary shares 2009
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 25).

At 31 December 2010, the authorised share capital comprised 50,000,000 ordinary shares (2009: 50,000,000). All issued shares are fully paid.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the net assets of foreign operations.

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 (2009: 143,835). This represented 1.4% (2009: 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:

	2010 €'000	2009 €'000
€0.16 per qualifying ordinary share (2009: €0.16)	**1,623**	1,623

A final dividend for 2009 of €0.09 cent per share was paid on 27 August 2010. An interim dividend for 2010 of €0.07 per share was paid on 7 December 2010.

After 31 December 2010 dividends of €0.09 per qualifying share were proposed by the directors for 2010.The proposed dividends have not been provided for and there are no income tax consequences.

22. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share is set out below:

Profit attributable to ordinary shareholders

	2010 €'000	2009 €'000
Profit for the year	**3,056**	17
Profit attributable to ordinary shareholders	**3,050**	31

Weighted average number of ordinary shares In thousands of shares

	2010 €'000	2009 €'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	**75**	67
Weighted average number of ordinary shares (diluted) at 31 December	**10,217**	10,209

Earnings per share	2010	2009
Basic earnings per share (euro cent)	**30.1**	0.3
Diluted earnings per share (euro cent)	**29.9**	0.3

23. 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 27.

	2010 €'000	2009 €'000
Non-current liabilities		
Secured bank loans	**3,699**	16,801
Finance lease liabilities	**10**	4
	3,709	16,805
Current liabilities		
Secured bank loans	**13,102**	3,342
Finance lease liabilities	**6**	9
	13,108	3,351
Total	**16,817**	20,156

Notes to the consolidated financial statements continued

23. 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 2010 Face value €'000	31 Dec 2010 Carrying amount €'000	31 Dec 2009 Face value €'000	31 Dec 2009 Carrying amount €'000
Secured bank loan	eur	Euribor+1.50%	2013	**5,801**	**5,801**	7,905	7,905
Secured bank loan	eur	Euribor+1.50%	2011	**11,000**	**11,000**	11,000	11,000
Secured bank loan	eur	Euribor+1.25%	2010	**-**	**-**	1,238	1,238
Finance lease liabilities	eur	6%	2010	**19**	**16**	15	13
Total interest-bearing liabilities				**16,820**	**16,817**	20,158	20,156

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2010 €'000	Interest 2010 €'000	Present value of minimum lease payments 2010 €'000	Future minimum lease payments 2009 €'000	Interest 2009 €'000	Present value of minimum lease payments 2009 €'000
Less than one year	**7**	**1**	**6**	10	1	9
Between one and five years	**12**	**2**	**10**	5	1	4
	19	**3**	**16**	15	2	13

Company

	2010 €'000	2009 €'000
Non-current liabilities		
Secured bank loans	**3,699**	16,801
Current liabilities		
Secured bank loans	**13,102**	3,342

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 Dec 2010 Face value €'000	31 Dec 2010 Carrying amount €'000	31 Dec 2009 Face value €'000	31 Dec 2009 Carrying amount €'000
Secured bank loan	eur	Euribor+1.50%	2013	**5,801**	**5,801**	7,905	7,905
Secured bank loan	eur	Euribor+1.50%	2011	**11,000**	**11,000**	11,000	11,000
Secured bank loan	eur	Euribor+1.25%	2010	**-**	**-**	1,238	1,238
Total interest-bearing liabilities				**16,801**	**16,801**	20,143	20,143

24. Employee benefits

The pension entitlements of certain employees of the Group arise under defined benefit pension schemes 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 valuations, 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 valuations 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 cost charged to the income statement in respect of defined benefit pension schemes was €155,000 (2009: €164,000). The actuarial reports are not available for public inspection.

The Group operated one defined benefit scheme during the year. The full actuarial valuations carried out as outlined above were 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 €386,000 (2009: €370,000). At 31 December 2010, €40,000 (2009: €45,000) 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

	2010 €'000	2009 €'000
Defined benefit scheme costs	**155**	164
Settlement gains on defined benefit schemes	**-**	(15)
Defined contribution scheme costs	**386**	370
Total	**541**	519

Group and Company

	2010 €'000	2009 €'000
Present value of funded obligations	**(3,651)**	(3,331)
Fair value of plan assets	**3,123**	2,595
Recognised liability for defined benefit obligations	**(528)**	(736)

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:	2010 €'000	2009 €'000
Equity securities	**2,360**	1,860
Government bonds	**464**	435
Property	**102**	86
Cash	**197**	214
	3,123	2,595

Notes to the consolidated financial statements continued

24. Employee benefits continued

Movement in the present value of the defined benefit obligations

	2010 €'000	2009 €'000
Defined benefit obligations at 1 January	3,331	3,053
Benefits paid by the plan	(28)	(73)
Current service costs	139	135
Interest on obligation	175	179
Employee contributions	53	55
Actuarial gains recognised in other comprehensive income	(19)	(3)
Settlements	-	(15)
Defined benefit obligations at 31 December	3,651	3,331

Movement in the present value of plan assets

	2010 €'000	2009 €'000
Fair value of plan assets at 1 January	2,595	1,980
Contributions paid into the plan	221	235
Benefits paid by the plan	(28)	(73)
Expected return on plan assets	175	135
Actuarial gains recognised in other comprehensive income	160	318
Fair value of plan assets at 31 December	3,123	2,595

Expense recognised in profit or loss

	2010 €'000	2009 €'000
Current service costs	139	135
Interest on obligation	191	179
Expected return on plan assets	(175)	(135)
Settlement gain	-	(15)
	155	164

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

	2010 €'000	2009 €'000
Cost of sales	(79)	(74)
Finance expense	(16)	(45)
Administrative expenses	(60)	(45)
	(155)	(164)
Actual return on plan assets	335	454

Actuarial gains and losses recognised directly in other comprehensive income

	2010 €'000	2009 €'000
Cumulative gain at 1 January	(532)	(855)
Recognised during the year	179	323
Cumulative gain at 31 December	(353)	(532)

Actuarial assumptions

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

	2010	2009
Discount rate at 31 December	5.50%	5.50%
Expected return on plan assets at 1 January	6.50%	6.50%
Future salary increases	3.25%	3.50%
Future pension increases	0.00%	0.00%
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 2010 at age 65 is 22.10 for males (2009: 22.00) and 23.60 for females (2009: 23.50). The average life expectancy of an individual retiring at age 65, 20 years from now, is 24.80 for males (2009: 24.70) and 25.80 for females (2009: 25.70).

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

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Present value of the defined benefit obligation	**(3,651)**	(3,331)	(3,053)	(5,006)	(11,031)
Fair value of plan assets	**3,123**	2,595	1,980	5,006	10,345
Deficit in the plan	**(528)**	(736)	(1,073)	-	(686)
Experience gains/(losses) arising on plan liabilities	**12**	176	(125)	703	(9)
Experience adjustments arising on plan assets	**160**	318	(1,310)	(516)	495

The Group expects €233,000 (2010: €230,000) in contributions to be paid to the defined benefit scheme in 2011.

25. 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 2010 there were 67,000 (2009: 67,000) options outstanding with a grant date pre 7 November 2002.

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

In thousands of options	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
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**	€4.35	150
	€6.90	**90**		

The options outstanding at 31 December 2010 have an exercise price in the range of €0.13 to €6.90 and a weighted average contractual life of 3.92 years. In accordance with accounting standards, the fair value of options granted pre 2002 have not been reflected in these financial statements.

Notes to the consolidated financial statements continued

25. Share-based payments continued

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, with the following inputs:

Fair value of share options and assumptions	2010	2009
Fair value at grant date – awarded to key management	-	32
Fair value at grant date – awarded to senior management	-	84
	-	116
Share price (€)	-	2.40
Exercise price (€)	-	3.00
Expected volatility (weighted average volatility)	-	35%
Option life (expected weighted average life) - years	-	3
Expected dividends	-	2.75%
Risk-free interest rate (based on government bonds)	-	3.10%

Employee expenses

	2010 €'000	2009 €'000
Share options granted in 2006	-	17
Share options granted in 2007	**19**	47
Share options granted in 2009	**39**	7
Total expense recognised as employee costs	**58**	71

26. Trade and other payables

	2010 €'000	2009 €'000
Group		
Trade payables due to related parties	**97**	189
Other trade payables	**17,024**	12,752
PAYE	**181**	158
PRSI	**161**	148
Accrued expenses	**4,189**	4,052
Deferred rental income	**166**	187
Value added tax	**170**	191
	21,988	17,677
Non-current trade and other payables		
Deferred consideration	-	145
Derivatives		
Fair value of option granted over investment in associate	**1,343**	811
	23,331	18,633

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

26. Trade and other payables continued

	2010 €'000	2009 €'000
Company		
Trade payables due to related parties	**23,072**	22,380
Other trade payables	**1,685**	1,145
PAYE	**81**	84
PRSI	**54**	53
Accrued expenses	**1,223**	852
Value added tax	**145**	169
	26,260	24,683
Derivatives		
Fair value of option granted over investment in associate	**1,343**	811
	27,603	25,494

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

27. Financial instruments

The Group's financial instruments at 31 December 2010 were classified as follows:

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)
Payables due to related parties	-	-	-	(97)
Trade and other payables	-	-	-	(21,988)
Option over financial asset	-	-	(1,343)	-
	37,116	**1,671**	**(1,343)**	**(45,268)**

31 December 2009	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	2,111	-	-
Loan to associates	3,628	-	-	-
Trade receivables due from related parties	402	-	-	-
Trade receivables	25,179	-	-	-
Other receivables	744	-	-	-
Loans and borrowings	-	-	-	(20,143)
Bank overdraft	-	-	-	(339)
Payables due to related parties	-	-	-	(189)
Trade and other payables	-	-	-	(17,488)
Option over financial asset	-	-	(811)	-
Deferred consideration	-	-	-	(145)
	29,953	2,111	(811)	(38,304)

Notes to the consolidated financial statements continued

27. 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)**

Company

31 December 2009	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	184	-	-
Loan to associates	3,628	-	-	-
Trade receivables due from related parties	11,005	-	-	-
Other trade receivables	2,178	-	-	-
Other receivables	301	-	-	-
Loans and borrowings	-	-	-	(20,143)
Bank	3,492	-	-	-
Payables due to related parties	-	-	-	(22,380)
Trade and other payables	-	-	-	(2,303)
Option over financial asset	-	-	(811)	-
	20,604	184	(811)	(44,826)

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group and Company. The maximum exposure to credit risk at the reporting date was:

Group	Note	Carrying amount 2010 €'000	Carrying amount 2009 €'000
Loans due from associates	15	**3,244**	3,628
Available-for-sale equity investments	16	**1,671**	2,111
Trade receivables from related parties	19	**107**	402
Trade and other receivables	19	**32,833**	25,179
Other receivables	19	**932**	744
		38,787	32,064

Company	Note	Carrying amount 2010 €'000	Carrying amount 2009 €'000
Loans due from associates	15	**3,244**	3,628
Available-for-sale financial assets	16	**287**	184
Trade receivables from related parties	19	**14,270**	11,005
Trade and other receivables	19	**2,561**	2,178
Cash and cash equivalents	20	**-**	3,492
		20,362	20,487

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

Group

	Carrying amount 2010 €'000	Carrying amount 2009 €'000
Domestic	**15,882**	12,885
Euro-zone countries	**828**	738
United Kingdom	**6,508**	5,287
Other regions	**9,615**	6,269
	32,833	25,179

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 2010 €'000	Carrying amount 2009 €'000
Domestic	**2,626**	2,178

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 2010 €'000	Carrying amount 2009 €'000
Wholesale customers	**19,185**	15,551
Retail customers	**13,648**	9,628
	32,833	25,179

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 2010 €'000	Carrying amount 2009 €'000
Wholesale customers	**2,626**	2,178

The ageing of trade receivables at the reporting date was:

Group

	Gross 2010 €'000	Impairment 2010 €'000	Gross 2009 €'000	Impairment 2009 €'000
Not past due	**22,256**	**5**	16,747	123
Past due < 30 days	**2,871**	**25**	2,807	11
Past due 30 – 365 days	**11,000**	**4,786**	9,414	4,896
Past due > 365 days	**2,827**	**1,305**	2,432	1,191
	38,954	**6,121**	31,400	6,221

Notes to the consolidated financial statements continued

27. Financial instruments continued

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

	2010 €'000	2009 €'000
Balance at 1 January	**6,221**	6,300
Fully impaired debts written off	**(36)**	(66)
Debts recovered	**86**	-
Impairment	**(150)**	(13)
Balance at 31 December	**6,121**	6,221

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 €5,000 of credit charges. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided for 1% of the balance past due less than 30 days being a category of customers suffering from poor market conditions, 44% of the balance past due from 30 to 365 days and 46% 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. In 2010, the Group and Company recognised a total reversal of impairment of €358,000 (2009:€112,000) against amounts due on loans to associates.

Company

	Gross 2010 €'000	Impairment 2010 €'000	Gross 2009 €'000	Impairment 2009 €'000
Not past due	**1,018**	**1**	701	16
Past due < 30 days	**286**	**-**	151	8
Past due 30 – 365 days	**559**	**35**	683	122
Past due > 365 days	**987**	**188**	908	119
	2,850	**224**	2,443	265

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

	2010 €'000	2009 €'000
Balance at 1 January	**265**	4,946
Fully impaired debts written off	**(41)**	(16)
Transfer of debts to subsidiary	**-**	(4,665)
Balance at 31 December	**224**	265

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 €1,000 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, 6% of the balance past due from 30 to 365 days and 19% 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. In 2010, the Group and Company recognised a total reversal of impairment of €358,000 (2009:€112,000) against amounts due on loans to associates.

Liquidity risk

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

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	(19)	(2)	(3)	(14)	-	-
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	**(47,456)**	**(29,634)**	**(12,265)**	**(3,920)**	**(1,637)**	**-**

31 December 2009

	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	20,143	(21,610)	(1,853)	(2,042)	(16,075)	(1,640)	-
Finance lease liabilities	13	(15)	(2)	(3)	(10)	-	-
Payables due to related parties	189	(189)	(189)	-	-	-	-
Trade and other payables	17,488	(17,488)	(17,488)	-	-	-	-
Option over financial asset	811	(873)	-	-	-	(873)	-
Bank overdraft	339	(339)	(339)	-	-	-	-
Deferred consideration	145	(145)	-	-	(145)	-	-
	39,128	(40,659)	(19,871)	(2,045)	(16,230)	(2,513)	-

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)**	**-**

31 December 2009

	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	20,143	(21,609)	(1,853)	(2,042)	(16,075)	(1,640)	-
Payables due to related parties	22,380	(22,380)	(22,380)	-	-	-	-
Trade and other payables	2,303	(2,303)	(2,303)	-	-	-	-
Option over financial asset	811	(873)	-	-	-	(873)	-
	45,637	(47,165)	(26,536)	(2,042)	(16,075)	(2,513)	-

Notes to the consolidated financial statements continued

27. 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 31 December 2010 €'000	GBP 31 December 2010 €'000	euro 31 December 2009 €'000	GBP 31 December 2009 €'000
Trade receivables	**20**	**11,232**	31	6,418
Loans and overdrafts	**(1,579)**	**(6,683)**	(466)	970
Trade payables	**(111)**	**(7,140)**	(75)	(4,924)
Gross balance sheet exposure	**(1,670)**	**(2,591)**	(510)	2,464

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
euro	2010	2009	2010	2009
GBP	**1.14**	1.10	**1.14**	1.10

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 2009.

	Equity €'000	Profit or loss €'000
31 December 2010		
GBP	**(143)**	**(515)**
31 December 2009	(13)	(702)

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 2009.

	Profit or loss		Equity	
	100 bp increase €'000	100 bp decrease €'000	100 bp increase €'000	100 bp decrease €'000
31 December 2010				
Cash flow sensitivity (net)	**232**	**(232)**	**(232)**	**232**
31 December 2009				
Cash flow sensitivity (net)	202	(202)	(202)	202

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 2010 would have increased equity and profit or loss by €84,000 (2009: €105,000). 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 2010		31 December 2009	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Available-for-sale financial assets	**1,671**	**1,671**	2,111	2,111
Loans and receivables	**37,116**	**37,116**	29,953	29,953
Secured bank loans	**(16,801)**	**(17,014)**	(20,143)	(20,143)
Finance lease liabilities	**(16)**	**(16)**	(13)	(13)
Trade and other payables	**(21,988)**	**(21,988)**	(17,488)	(17,488)
Derivatives - option over financial asset	**(1,343)**	**(1,343)**	(811)	(811)
Bank overdraft	**(6,382)**	**(6,382)**	(339)	(339)
Deferred consideration	**-**	**-**	(145)	(145)
	(7,743)	**(7,956)**	(6,875)	(6,875)

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 2010 and 31 December 2009, the Group recognised and measured the following financial instruments at fair value:

	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**

	2009 Total €'000	2009 Level 1 €'000	2009 Level 2 €'000	2009 Level 3 €'000
Available-for-sale financial assets				
Unquoted equity investments	2,111	-	2,111	-
Derivatives - option over financial asset	811	-	-	811

Notes to the consolidated financial statements continued

27. Financial instruments continued

Additional disclosures for level 3 fair value measurements

	2010 €'000	2009 €'000
Derivatives – option over financial asset		
At beginning of year	811	303
Loss recognised in the income statement	532	508
At the end of the year	1,343	811
Unquoted equity investments		
At beginning of year	-	-
Additions (reclassified from level 2)	2,515	-
Loss recognised in the income statement	(844)	-
At the end of the year	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:

	2010	2009
Derivatives	3.1%	3.1%
Loans and borrowings	2.7%	2.7%
Leases	6.0%	6.0%

28. Business combinations

During 2010, the criteria for payment of deferred consideration in connection with the 2009 acquisition of Chef in a Box Limited were met and the consideration duly paid.

Other than this, the Group did not complete any acquisitions during 2010.

On 5 January 2011, the Group acquired a controlling interest in Bio Green Foods Limited a UK incorporated company which manufactures yogurt drinks.

29. Operating leases

Leases as lessor

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

	2010 €'000	2009 €'000
Less than one year	539	549
Between one and five years	2,439	1,218
	2,978	1,767

During the year ended 31 December 2010 €1,094,000 was recognised as rental income in the income statement (2009: €1,012,000). Expense charges against this income was as follows: maintenance costs €68,000 (2009: €54,000), management expenses €234,000 (2009: €184,000) and depreciation €167,000 (2009: €175,000).

The Group and Company had no operating lease commitments as leasee at 31 December 2010 (2009: €Nil).

30. Capital commitments

At the year end there were capital commitments of €203,000 authorised by the Directors and not provided for in the financial statements (2009: €Nil).

31. Contingencies

Group and Company

Under agreements between the Group and the Industrial Development Authority, capital grants up to a maximum of €730,000 (2009: €730,000) could be become repayable in certain circumstances as set out in the agreements.

32. 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 25.

Key management personnel compensation comprised:

	2010 €'000	2009 €'000
Short-term employee benefits	**533,574**	526,837
Post-employment benefits	**68,144**	68,741
Share-based payments	**17,143**	34,172
	618,861	629,750

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 €1,549,381 (2009: €1,121,224) and €588,912 (2009: €526,813), 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	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Sale of goods and services				
Sales by Group to directors	**589**	527	**107**	74
Purchases by Group from directors	**(1,549)**	(1,121)	**(97)**	(189)
By parent to associates	**-**	20	**-**	328

Notes to the consolidated financial statements continued

32. Related parties continued

Other related party transactions - Company

	Transaction value Year ended 31 December 2010 €'000	Transaction value Year ended 31 December 2009 €'000	Balance outstanding As at 31 December 2010 €'000	Balance outstanding As at 31 December 2009 €'000
Sale of goods and services				
Sales by parent to directors	**395**	397	**65**	52
By parent to subsidiaries	**958**	1,287	**14,205**	10,935
Parent from subsidiaries	**(2,517)**	(2,594)	**23,072**	(22,380)
By parent to associates	**-**	20	**-**	20

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.

33. Group entities

Subsidiaries	Country of incorporation	Ownership interest 2010 %	Ownership interest 2009 %
Glenveagh Agricultural Co-Operative Society Limited.	Ireland	**100**	100
Robert Smyth & Sons (Strabane & Donegal) Limited	Ireland	**100**	100
Asian Paneer Limited	Ireland	**75**	75
Zopitar Limited	Ireland	**83**	83
Crest Securities Limited	Ireland	**100**	100
Ramelton Road Property Developments Limited	Ireland	**100**	100
Letterkenny Student Residences Partnership	Ireland	**100**	100
Milburn Dairy Limited	Ireland	**100**	100
Irish Potato Marketing Limited	Ireland	**100**	100
Donegal Potatoes Limited	Ireland	**100**	100
The Different Dairy Company Limited	Ireland	**100**	100
Maybrook Dairy (Omagh) Limited	Northern Ireland	**100**	100
McCorkell Holdings Limited	Northern Ireland	**75**	75
Maybrook Dairy Limited	Northern Ireland	**100**	100
Euro-Agri Limited	Northern Ireland	**100**	100
Estuary Trading Limited	Northern Ireland	**100**	100
IPM Holland B.V.	Holland	**100**	100
MPCO Limited	Ireland	**100**	100
High Meadow Patents Limited	Ireland	**100**	100
An Grianan Grain Company Limited	Ireland	**100**	100
Aisheco Limited	Ireland	**100**	100
Donra Dairies Limited	Ireland	**100**	100
Chef in a Box Limited	UK	**100**	100
Solanex Limited	Brazil	**85**	85
Associated undertakings:			
Monaghan Middlebrook Mushrooms	Ireland	**35**	35
North Western Livestock Holdings Limited	Ireland	**22.4**	22.4
Leapgrange Limited	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, Crest Securities Limited, Ramelton Road Property Developments 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.

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Donegal

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