



DAIRYGOLD CO-OPERATIVE SOCIETY LIMITED
ANNUAL REPORT AND ACCOUNTS 2010





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or failure in a Dairy
Ingredients business"*





Chairman's Statement

After a period of the most challenging conditions for farming, 2010 brought welcome relief for Members in the form of more favourable weather, improved returns from international dairy markets and higher grain prices.

Against a backdrop of continued recession and contraction in the wider economy, improvements in 2010 helped to create a more positive outlook for all associated with the agricultural sector.

For our Members, the improved weather helped to deliver higher production, while the increased milk and grain prices delivered by the Society helped our Members to offset some of the extra costs associated with farming over the previous two years.

2009 is a stark reminder, if any was needed, of the unpredictable nature of our industry and the extent to which farmers are exposed to the volatility of global market returns. 2009 saw the milk price hit an all time low and the year was, for many of us, one of the worst ever experienced in the industry. The dramatic turnaround during 2010 lifted market returns significantly. Dairygold, for its part, raised its milk price by 6 cent per litre (incl. VAT) over the course of the year, as well as paying a market leading grain price.

As a Co-operative our principal means of rewarding our Members is through maximising the milk and grain prices paid to suppliers while delivering the most competitive farm inputs complimented by our expert advisory services and support.



Dairygold has one of the fairest and most transparent milk price payment systems in the country in our A+B-c milk payment system.

Introduced in 2009 this payment structure rewards farmers who supply milk with higher solids, protein and butterfat. It also compensates those farmers who invest in better breeding and management regimes to increase solids. From the processors perspective, the structure also discourages high volumes of milk with lower constituents, which is uneconomical to transport, process and dry.



Pictured on the farm of the Dairygold Milk Quality Awards winner were (l to r): Michael Dowling, Overall winner, Maeve O'Connor, Dairygold and Tom Carr, Herd Manager Dowling farm.

Milk Quality

Milk quality is a key determinant of success or failure in a Dairy Ingredients business. As a dairy processor, Dairygold is constantly emphasising the importance of milk quality and one of the best ways to reinforce that message is by recognising and rewarding best performance and practice across our supplier base. It is for this reason that in 2010 we introduced the annual Dairygold Milk Quality Awards.

For the past number of years farmers have been constantly advised to minimise costs so as to maintain a margin from their business. In such an environment, quality can often suffer. Thankfully, this is not happening amongst Dairygold suppliers. Dairygold's milk quality scorecard method for assessing milk quality and paying bonuses readily proves this.

Dairygold also plays its part in supporting milk quality and a key development in 2010 was the establishment of the independently accredited and the Department of Agriculture, Fisheries and Food monitored Milk Testing Laboratory in Mallow which now provides testing for animal diseases. Herd health is the foundation of productive dairying and this Laboratory will play a vital role for Members in an expanding industry.

A commercially significant acknowledgement of Dairygold's superior milk quality came during the winter when Danone announced that Dairygold would be a key ingredient supplier to its expanded Infant Formula Facility in Macroom. The agreement, which the Chief Executive will cover in more detail in his review, will provide an added-value outlet for a significant proportion of Dairygold's whey and skim milk powder volumes.



The Irish Dairy Industry

The imminent end of the EU milk quota environment will undoubtedly present opportunities and challenges for the industry at every level. Dairygold is looking forward to the expiry of quota restrictions on Irish milk production. At farmer level there is a clear build-up of anticipation and expectation at the prospect of growing and expanding farming enterprises. This is the first opportunity the sector has had since the introduction of quotas in 1984. Our own surveys indicate that milk output will expand by in excess of 30% depending on milk price returns.

Dairygold is working with our Members, in different ways, through Monitor Farm programmes and Discussion Groups to assist awareness, preparation and planning for what the milk expansion opportunity will involve on-farm. However, we must recognise that as a net exporter of dairy produce, all of our additional milk volumes, along with those from other EU Member States, will be competing for customers in the same international dairy markets.

Cheese Awards

Further confirmation of Dairygold's standing as a manufacturer of top quality dairy products came in the form of a series of industry awards during 2010. Dairygold's Cheddar Cheese won Gold at the World Championship Cheese Contest staged in Wisconsin, USA in March. The competition hosts the world's largest International Cheese and Butter Awards from twenty countries worldwide.

This achievement was further endorsed by winning five additional awards at the prestigious 113th Nantwich International Cheese Show. These awards are testament to our cheese making heritage and the quality that we continue to display in our manufacturing processes



Pictured with the gold medal from the 2010 World Cheese Championship are (l to r): Jim Woulfe, Chief Executive, Eugene O'Connor, Cheddar Plant Manager, Mike Corbett, Operator, Vincent Buckley, Chairman, Ted O'Connor, Cheese Grader, Tim Healy, Director of Operations and Fionnula McArdle, Cheddar Quality Manager.

We will be more exposed to global competition and the full impact of market volatility in a way none of us has experienced in the past.

I believe that Dairygold producers are at the forefront of dairy farming efficiency and with our competitive grass based production we are well able to compete with the very best internationally. Dairygold Co-op will be there to support Members as they make the transition to the new post quota environment and we are already leading the way in this regard.

During the year our Chief Executive Jim Woulfe was appointed by the Minister for Agriculture, Fisheries and Food to the seven member Dairy Expansion Activation Group. The Group was established by the Department of Agriculture to look at ways of achieving the national objective of a 50% increase in milk production by 2020, as set out in its Food Harvest 2020 Report.

In early 2011, the Group set out its road-map for achieving the increase. It identified specific scheduled actions for both producers and processors while giving due consideration to the importance of the marketing and financial investment requirements needed to deliver a successful outcome.

Dairygold recognises the need for a commercially sound strategy to deal with the impending increased milk volumes and we remain open and willing to explore all options that can improve our Milk Suppliers' return. Our Management and the Board are currently focussed on developing the best path forward in that regard. In simple terms, the ultimate solution must be able to deliver increased profitability to Dairygold suppliers.

Reox Holdings plc Transaction

A very welcome and significant development for the Society was the finalisation of an agreement with Reox Holdings plc regarding the acquisition of a portfolio of assets, strategically important to the Society and which facilitates the crystallisation of part of the debt due from Reox Holdings plc to the Society. It is envisaged this transaction will be completed in the second quarter of 2011. This is dealt with later by the Chief Executive.

Grain

2010 was a very good year for Growers, excellent harvesting conditions resulted in good yields and high quality and as a consequence of the strong grain market, Growers received a significantly higher price in 2010 over 2009 for their produce.

Shareholder Policy

During 2010, your Board requested the Rules Sub Committee of the Board to carry out a review of Shareholding Policies, which recommended and the Board approved, an updated policy on Share Redemption, Share Ownership for Milk Suppliers and Share Trading. This brought clarity and addressed concerns of Members.

Board and Management

I wish to thank Mr. Bertie O'Leary who completed his term of office as Vice Chairman, for his help and support to me and for his contribution to the Society in his role as Vice Chairman. I look forward to working with Mr. Pat Healy who has been elected Vice Chairman for the coming term.

In addition, a special word of thanks to my fellow Board Colleagues for their support and commitment and to the members of the General and Regional Committees for their contribution to the affairs of the Society.

In particular, my thanks and appreciation, to Mr. Jim Woulfe for his successful leadership and commitment as C.E.O. and to our Company Secretary, Mr. Eamonn Looney, for his ongoing support and commitment.

On behalf of the Board, I would like to thank all the management and staff of the Society for their continued commitment over the last year. I would also like to thank all of our Shareholders and Customer for their continued support of the Society. Your loyalty and custom are the foundation of our continued success and will be vital for our future progress. I want you to know that they are greatly appreciated.

Conclusion

The Dairygold business has a strong Balance Sheet. We paid strong milk and grain prices while meeting our financial commitments, but we are not immune to the future volatility of the markets. Dairy markets were buoyant in 2010 and the current environment would suggest an optimistic outlook for 2011. However, we have to recognise that we need to expect and prepare for more volatility as global forces of supply and demand fluctuate.

Overall, I'm confident of Dairygold's future because we have a committed and dynamic team that is pursuing every channel to add value to your milk and grow the business in a sustainable manner. We will continue to deliver leading milk and grain prices while recognising the future challenges and preparing for the opportunities which a post-quota environment will bring to the business.



Vincent Buckley
Chairman

"A significant business development was the decision by Danone to select Dairygold as its key Dairy Ingredients supplier in its expanded business in Macroom"



Chief Executive's *Review*

A significant recovery in dairy market returns combined with Dairygold's processing efficiency provided a substantial improvement in Member's returns and also contributed to the Society's overall successful financial performance for 2010.

Dairygold recorded an operating profit on its core activities of €18.9 million, up from €11.8 million in 2009.

This was achieved on an increased turnover of €693.6 million, up €138.4 million on the previous year.

The increase in profitability was generated across all the main business activities. The performance in our Dairy business reflects the improved efficiency of our operations combined with strong returns from international dairy markets that triggered an increase in on-farm milk production and drove increased dairy sales volumes. Our Agri Operations benefited from the increased demand for farm inputs to support higher milk production on-farm as well as our success in boosting our share of the feed and fertiliser market. Our Agri Retail sales grew, following the first full year's operation of the seven stores acquired from Reox Holding plc in late 2009.

This performance is particularly noteworthy in the context of increases in raw material cost. Dairygold paid a market leading milk price throughout the year reflecting the uplift in returns from international dairy markets.

During the year the Society undertook the sale of shares to part finance the proposed Reox property portfolio acquisition. This share trading created an additional uplift of €7.3 million in profit bringing the overall operating profit recorded in the accounts to €26.2 million.

The overall financial performance enabled the Society to deliver on its financial targets, including debt level reduction. Our Net Debt position decreased from €77.9 million to €71.9 million and as the Reox transaction was not concluded at year-end the proceeds of share trading further reduced the recorded debt to €62.3 million. Our adjusted year end debt at €80.6m post the Reox transaction, is still high but its reduction is being tightly managed.

Financial funding arrangements are agreed up to 2013. This gives the business greater confidence in continuing to meet our working capital requirements in the current environment of higher throughput and prices, though still a considerable challenge.

In 2010 the Management team continued its drive to remove any element of unnecessary cost from the business. All in all our financial and operational performance in 2010 was strong and we are building sound foundations for a Co-op which will be able to work with its members to thrive in the post-quota era.

Laboratory Technician Helen McCarthy working in Dairygold centralised Product Testing Laboratory

Dairy Markets

The uplift in returns from global dairy markets, which began at the end of 2009 and continued throughout 2010, yielded improved returns across the dairy industry from which Dairygold also benefited. The strong returns resulted from consistently strong demand, particularly from emerging markets like China and a slow growth in international production volumes.

Looking forward, global consumption rates are forecasted to continue growing by circa 2% year on year and any improvement in the economic climate in the developed economies will boost consumption levels and bolster global demand. Russia, China and more recently India have become hugely important in determining global demand as they continue to create demand for dairy products that is not being met from domestic production.

Overall, the reality is that CAP no longer underpins the market and as a consequence supply and demand dynamics have a more immediate impact on price volatility. The dairy industry is a low growth business and even a modest swing in the markets can create huge price volatility. Many factors such as weather, unpredicted natural events and fluctuations in supply and demand have an immediate impact on product price. In looking to manage the price volatility of international commodity prices Dairygold is concentrating its processing on a product portfolio with a stronger growth and margin curve. Our investment programme has reflected that policy with dairy ingredients, infant formula and cheese solutions being the priority focus of our dairy processing capability.



Dairygold Food Ingredients - Ireland

Increased milk production at farm level created higher throughput and longer production runs in our processing plants. It is noteworthy that we recorded our highest ever annual milk intake of 925 million litres in 2010. While energy costs remained high the increased throughput combined with efficient processing helped spread our cost and improve overall performance in our dairy processing operations.

In 2010 Dairygold continued its capital programme at its Irish manufacturing facilities, which benefited from an Investment of €42.1 million over the last five years.

With a strong processing capability in place, our focus now turns to the management of the increased milk production expected in the post quota environment. While acknowledging that post 2015, we will need to implement some additional processing options or reconfigurations to optimise processing capacity, the Society is satisfied that it has the capacity to process its milk pool up to 2015.

Before we make any investment decisions in regard to how best to process the additional milk volumes anticipated we will first research and determine the best product options for the additional milk and then determine how best that milk processing requirement can be most efficiently and cost effectively achieved.

In light of the issues raised by the prospect of significant additional volumes of milk, Dairygold will conduct a detailed feasibility study during 2011 in relation to its post quota milk processing requirements, upon which the Society can make the appropriate business and investment decisions in due course.

As your Chairman said in his statement the one principal guiding all of our considerations will be the need to deliver benefit to our Members.

Of course Dairygold will not be making these decisions in isolation from the rest of the industry. We have already participated in the ICOS milk processing study and if ever there was a time and opportunity to achieve some shared efficiencies, then the challenge of processing the extra milk post 2015, is an obvious one. The Irish Dairy Board, ICOS, the Department of Agriculture, Fisheries and Food, Enterprise Ireland and all processors have a role to play in this effort.

Danone

A significant business development for Dairygold Food Ingredients during 2010 was the decision by Danone to select Dairygold as a key raw material supplier to its expanded Macroom facility. Danone is investing €50 million in the Infant Milk Formula plant which is expected to treble its production capacity to 100,000 tonnes annually with a consequent and welcome increase in raw material requirements.

Construction at Macroom has commenced and the new plant is scheduled to be operational in 2012. For our part, Dairygold will make a €5 million investment in our Mitchelstown plant to facilitate the supply agreement.

The supply agreement is further confirmation of Dairygold's excellence in the manufacture of quality dairy ingredients to the highest international standards. Indeed, when announcing the investment, Danone cited the availability of quality raw materials as one of the key factors in choosing Macroom.

Dairygold Food Ingredients - Overseas

Dairygold Food Ingredients UK continues to build its cheese solutions business targeting industrial food manufacturers with a unique and diverse product range that includes a variety of shredded and liquid cheeses. Our specialist cheese solution for the pizza sector, PizzaMelt®, has grown steadily in this market.

Following its first full year of operations as Dairygold Food Ingredients France, our manufacturing facility at Nantes has increased its cheese powder volumes as we harness the plant and technology we acquired to deliver a broader range of product solutions to our customer base. DFI France markets a range of cheese powder ingredients designed to provide natural cheese flavours in a wide variety of food applications.



Management continued to focus on transforming this business from a niche family operation into one that can support Dairygold Food Ingredients' ambitions for its cheese solutions strategy in continental Europe.

Our German and Spanish sales teams continued to build on their established reputations in their respective markets to further drive cheese sales and customer relationships with a focus on industrial cheese solutions in the Spanish market and on the traditional deli counter and retail shelf in Germany.

Dairygold Food Ingredients - Research and Development

Innovation and new product development are critical elements to the success of our Dairygold Food Ingredients business, especially our Cheese Solutions business. Our Innovation Centre in Mitchelstown has been particularly successful in commercialising our cheese powder R&D projects with a significant variety of powder formulas developed during 2010. It has also contributed hugely to the development of our award winning cheeses.

Dairygold Agri-Operations

The 2010 grain harvest was one of the best on record in terms of quality and volumes. Grain prices were also substantially higher and Dairygold paid one of the leading prices for grain.

In 2010 Agri-Operations Management worked hard to build on the acquisitions of recent years to drive consolidation and growth of the business across our expanded customer base. This drive combined with improved farmer confidence boosted the performance of our Agri-Operations with strong sales of farm inputs.

Dairygold operates its Agri-Operations business to service the needs of our farming Members. In that regard we are focused on constantly driving down cost and consolidating the business in a highly competitive commodity market. One measure which has been particularly successful is Agri Direct where supply chain costs have been significantly reduced by the provision of bulk delivery of fertiliser direct to farm.

The market reality has also forced the business to take more difficult decisions and we closed our pig and poultry feed mill at Mitchelstown in 2010. The mill had a very high cost of production and was no longer commercially viable. In order to secure continuity of customer supply we entered into a grain and feed processing agreement with a third party that dries and stores feed grain and contract manufactures pig and poultry feeds for Dairygold. Dairygold continues to formulate all of the diets, supply the feed ingredients and provide a delivery service to its customers.

Dairygold Agri-Retail

Our Agri-Retail operations delivered a solid performance in what was a highly challenging retail market environment. Customer spending was restrained and price competitiveness became a significant differentiator in the marketplace. Our Co-op Superstores responded to the challenge through a combination of cost cutting and promotional activity to drive sales.

Furthermore the seven former Reox stores acquired in late 2009 were successfully integrated into the Co-op Superstores group following a re-branding exercise. Their first full year of operation provided a substantial boost to the overall turnover within the business.

The broad Co-op Superstores offering is well received by its diverse customer base. Rising levels of farm activity and investment also created strong demand for farm hardware and requisite products.

Looking forward, the management team will focus on building on our success in servicing our traditional agri customer base. We will further develop our general hardware offering, which also performed well and offers opportunities for the year ahead as spending patterns change towards gardening, hobbies, DIY and home improvements. Finally, following the re-integration of the seven stores acquired it is important that we now examine the current store structure to determine the most appropriate formula to maximise the performance of our retail business into the future.



Pictured at Danone's announcement on the Macroom investment were (l to r): Julie Sinnamon, Executive Director Global Business Development, Enterprise Ireland, Donal Courtney, Managing Director, Danone Baby Nutrition Ireland, Vincent Maurice, Vice President Operations, Danone Baby Nutrition, Batt O'Keeffe, TD, Minister for Enterprise and Innovation and Jim Woulfe, Chief Executive, Dairygold.

Reox Holdings plc

Reox Holdings plc (Reox) is a separate corporate entity from the Society, but one in which Dairygold retains a substantial financial interest. In 2010 the Society took appropriate steps to put that financial interest in Reox on a more secure footing. When Reox was originally established in May of 2006, Dairygold Co-op retained a 25% shareholding (currently 26.1%) in the company and supported its initial capitalisation with a loan in the form of a repayable €33 million Redeemable Interest Bearing Bond (RIBB).

The rapid deterioration in the economy in general and the fortunes of the company in recent years have had a profound impact on the value of Reox. With a view to protecting the Society's investment in Reox, Dairygold initiated a process aimed at acquiring a number of Reox property assets, which were considered to be of strategic importance to Dairygold.

This process resulted in a proposed transaction whereby Dairygold will acquire 17 properties for a consideration of €43 million following independent advice on the valuation of the properties. €17 million of the consideration will be paid in cash, to be part funded through the sale of shares while the remaining €26 million will be offset against the RIBB and other trading liabilities due to Dairygold by Reox.

The acquisition from Reox will consist of seventeen separate properties including the strategically important Mallow North and Mallow South sites, as well as properties associated with a number of retail stores.

The effect of the transaction will be to reduce the outstanding total Reox liability to Dairygold to €19 million. The outstanding liability is to be repaid to Dairygold by 2017. The transaction will strengthen the Society's Balance Sheet considerably and ensure that we are positioned to take advantage of future opportunities which these properties may present.

Pension Scheme

During 2010, Dairygold amalgamated the four defined benefit pension schemes operated by the Society into one newly established Consolidated Dairygold Defined Benefit Pension Fund, effective from 1st September 2010. The amalgamation addressed rising pension costs by providing a more efficient and cost effective pension scheme arrangement and minimised the risks associated with pensions. The new scheme is now established and is properly funded so as to adequately provide for its future pension obligations.



Board & Management

I would like to thank Mr. Vincent Buckley for his contribution as Chairman of the Society during the year. The entire Board and Mr. Buckley in particular have been a great source of support and guidance and I thank them for that. I would also like to thank our General Committee and Regional Committees for their input to the Society's business throughout the year.

I also want to take the opportunity to thank all our employees for their continued co-operation and flexibility. Over the past two years they have shown great commitment in meeting the challenges the business faced over that period. We have and must continue to work smartly and position ourselves appropriately to take advantage of the future opportunities for our business.

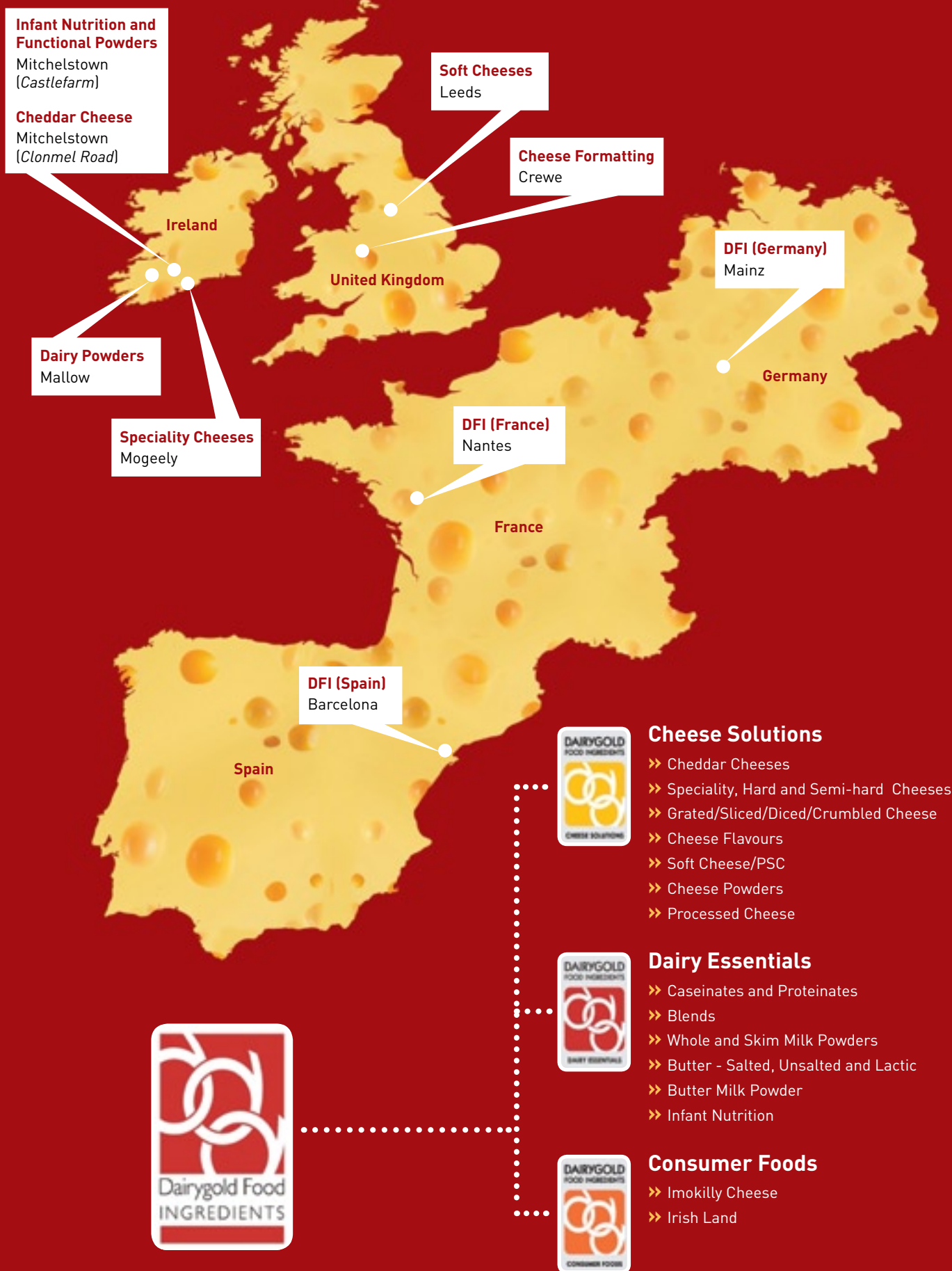
Conclusion

2010 was undoubtedly a successful year for the Society with increased profits achieved against a backdrop of increased milk and grain prices and rising costs in other inputs such as energy. This is a reflection of the hard work put in by all of our staff in terms of transforming the Society into the highly efficient modern agri-food business it is today. It is also a testament to our Member suppliers and the quality of raw materials they produce. This was instrumental in securing the supply agreement with Danone.

The future in dairying will be one of quite dramatic change with the ending of the quota environment. This will be a time of great opportunity for the Irish dairy sector and for those processors who have prepared well for it. With our sound and stable business model and strong financial footing Dairygold will be one of those processors. We look forward to working with our Members and other stakeholders to avail of all opportunities, across the entire business. For 2011 our focus is now on planning the correct strategy for our overall business post quota.

Jim Woulfe
Chief Executive

Operating Footprint – Dairygold Food Ingredients



*"The Net Asset Value
of the business grew by
€20.6 million in 2010
to €241.3 million"*



Financial Overview

2010 has been a very successful year; Dairygold Co-Operative Society Limited generated an operating profit of €18.9 million (2009 : €11.8 million) from its core activities.

2010 Key Financials

- » Dairygold generated an operating profit for the year from its core activities of €18.9 million on dairy (both Ireland and overseas) and agri-trading activities.
- » An additional profit of €7.3 million realised from Share Trading brought the overall operating profit to €26.2 million.
- » Dairygold's Shareholders' Funds increased by €20.2 million from its 2009 position of €220.1 million to €240.3 million.
- » Dairygold's Net Debt position decreased from €77.9 million to €62.3 million, a reduction of €15.6 million compared to its 2009 position. The impact of the proposed Reox transaction would be to increase the year end Net Debt position to €80.6 million.
- » Dairygold invested a total of €7.6 million of its cash in capital expenditure across the business.



Profit and Loss Account

- » Turnover in 2010 increased by €138.4 million versus 2009 from €555.2 million to €693.6 million. The increase was generated across the main business activities. Dairy commodity product prices increased significantly year on year and dairy sales volumes grew following increased milk production. On the Agri side, fertiliser and ruminant feed sales volumes increased and retail sales grew, based on the inclusion of the seven stores acquired from Reox Holdings plc for the full year compared to approximately 10 weeks in 2009.
- » The operating profit of €26.2 million achieved in 2010 was an increase of €12.8 million on 2009, an increase of €7.2 million on core activities and an increase of €5.6 million on share trading.

The increase in operating profit from core activities was principally attributable to the:

- » performance of the individual businesses which have continued to benefit from the restructuring and investment programmes over recent years
- » increased sales activity and optimising the product mix
- » processing optimisation including the achievement of payroll reductions.
- » The share of associates' performance before related taxation was a loss of €7.5 million in 2010 (2009: loss of €1.0 million). The loss of €7.5 million is driven primarily by Dairygold's share of the losses of Reox Holdings plc.
- » Net interest payable was €0.4 million (2009: €1.0 million). Net bank interest payable of €4.8 million was offset by RIBB interest of €0.4 million and a finance credit of €4.0 million relating to investment returns from the pension schemes.
- » The taxation charge for the year of €1.2 million (2009: €0.9 million) relates primarily to share trading and overseas subsidiaries.
- » The profit for the financial year was €16.8 million (2009: €9.3 million) and the retained profit was €15.5 million (2009: €8.1 million) after paying share interest of €1.2 million (2009: €1.2 million) to Members.

Balance Sheet

The Balance Sheet of the Society strengthened in 2010 with Shareholders' Funds increasing by €20.2 million to €240.3 million. The increase was driven primarily by a retained profit for the year of €15.5 million, an increase in the pension asset of €6.8 million (of which €1.4 million is incorporated in the profit for year and €1.9 million from contributions), the positive impact of currency movements on net investment of €1.2 million and an increase in share of associates' reserve movements of €2.1 million, which were offset by a net share redemption of €2.2 million.

- » Fixed assets of €192.7 million comprising tangible assets, intangible assets and financial assets, decreased by €16.3 million, from €209.0 million as a result of:
 - » investments of €6.8 million in capital expenditure and the impact of positive currency movements of €0.6 million, which was offset by:
 - » depreciation and amortisation charges of €16.3 million, a reduction in the share of associates net assets of €5.5 million and other financial assets of €1.9 million.
- » Net current assets less creditors falling due after more than one year, of €37.5 million were up €29.2 million on 2009, explained by:
 - » an increase in stocks of €13.8 million to €86.9 million, reflecting increased prices and an increase in stock volumes
 - » an increase in debtors of €6.8 million to €105.8 million, reflecting increased sales and higher selling prices
 - » an increase in total creditors (excluding net debt) of €6.9 million to €92.8 million, reflecting the increased cost of inputs year on year.
 - » a reduction in net debt of €15.6 million to €62.3 million, driven by business performance and sales of financial assets.
- » The net pension asset increased by €6.8 million, resulting from gains associated with the consolidation of four individual schemes into one and the performance of the fund year on year. The increase recognised in the profit for the year was €1.4 million, €1.9 million from contributions, with a further €3.5 million accounted for directly through reserves.
- » The capital grants' liability of €5.5 million reduced by €0.8 million in line with the amortisation credit for the year. The deferred tax liability of €0.4 million was in line with 2009.



- » The share capital decreased by €2.2 million to €96.4 million reflecting the shares redeemed of €2.4 million offset by shares issued of €0.2 million.
- » The revenue reserves increased by €22.4 million to €135.8 million, resulting from a retained profit for the year of €15.5 million, gains in the pension asset of €3.5 million, the positive impact of currency movements on net investment of €1.2 million and an increase in share of associates reserve movements of €2.1 million.

Cash Flow

The cash inflow of €14.9 million and the positive non cash movement of €0.7 million are the key drivers of the reduction in net debt of €15.6 million to €62.3 million. The cash in-flow of €14.9 million results from an EBITDA (Earnings Before Interest Taxation Depreciation and Amortisation), of €42.4 million, which was generated from the business (incorporating €7.3m from share trading), adjusted for the actual pension cost and was offset by:

- » the investment in the business of €7.0 million, incorporating €7.6m in capital expenditure and restructuring costs of €1.3m offset by €1.9m from sale of investments
- » increased working capital requirements of €11.8 million
- » paying €8.7 million to cover net finance costs, taxation, share redemption and share interest.

The reduction in the net debt to €62.3 million was driven by the improved financial performance and liquidating financial assets of approximately €9.0 million to fund the Reox transaction, which was offset by the increased working capital requirements.

Pension

In 2010, Dairygold Co-Operative Society Limited carried out significant restructuring of its pensions.

The Society:

- » amalgamated the four existing defined benefit schemes into a single new scheme to provide the most effective delivery of defined benefits across the group.
- » closed the defined benefit scheme to new entrants and opened a defined contribution scheme for new employees.
- » increased member contributions in the current defined benefit scheme to 6%, and
- » declared that pension increases in respect of future years of pensionable service will be discretionary.

The net pension asset, based on the FRS17 valuation as at 31 December 2010 was €16.9 million, ensuring the pension scheme continues to have sufficient assets to meet future liabilities and remains one of the top 10% funded schemes in the country.

Financial Assets

The Society's investment portfolio, managed in conjunction with a third party investment manager, had a market value of €24.9 million including ARYZTA AG at €14.6 million (€34.99 per share) and One51 plc at €3.8 million (€1.00 per share) as at 31 December 2010. The investment portfolio was carried on the Society Balance Sheet at cost, at €8.2 million as at 31 December 2010.

During 2010, Dairygold Finance realised €7.0 million from sales from its original investment base and given the negligible book value of these original shares, the Society realised a profit equivalent to the sales proceeds of these shares. In addition, the Society traded €13.6 million of shares during the period on which it realised a profit of €0.3 million, giving a total operating profit on Share Trading of €7.3 million.

Banking Facilities

During 2010, the Society successfully completed a refinancing of its Banking Facilities, providing funding to the business for the period up to March 2013. These Banking Facilities provides the business with funding arrangements for its ongoing business requirements and provides the business with security and confidence in this difficult financial environment.

Reox Holdings plc

Dairygold has a 26.1% shareholding in Reox Holdings plc, however a market value is not available, due to the lack of current market trading activity. Dairygold's 2010 balance sheet reflects the following:

- » its shareholding of €1.7 million, based on its share of the net assets of the company.
- » the Redeemable Interest Bearing Bond ("RIBB") of €33.0 million.
- » €12.0 million of other assets primarily relating to the disposal of Breeo Foods Limited, property commitments and RIBB Interest, less €6 million provision.



Proposed Reox Transaction

It is proposed that Dairygold Co-Operative Society Limited will acquire a number of Reox Holdings plc property assets which are of strategic importance to the Society, including Mallow North and Mallow South sites and properties associated with a number of Retail Stores.

The overall cost of the transaction will be approximately €44.3 million, of which €43.0 million is payable to Reox Holdings plc, €17 million to be paid in cash and €26 million to be offset against other amounts due by Reox Holdings plc to Dairygold Co-Operative Society Limited. The remaining €1.3 million is made up of the costs associated with the transaction.

On the completion of the Transaction, the total liability outstanding from Reox to Dairygold will be €19 million, which is to be repaid as follows: €3 million each year for 5 years, commencing in December 2012 and €4m to be repaid in December 2017.

The financial statements have been prepared on the basis that the proposed transaction with Reox Holdings plc (as stated in note 31) is completed, thereby realising the carrying value of the investment in assets due from Reox Holdings plc as recorded in these financial statements.

Balance Sheet Post Proposed Reox Transaction

The impact of the transaction on the Dairygold Co-Operative Society Balance Sheet as at 31 December 2010 would be as follows:

The overall net asset value of the Society would remain unchanged at €241.3 million. However fixed assets would increase by €44.3 million reflecting the fair value of the assets acquired. The financial assets would be reduced by €14 million (with the RIBB of €33.0 million being cancelled and replaced with a loan note of €19.0 million) and the debtors would be reduced by €12.0 million, reflecting the total debt offset of €26.0 million. The year-end net debt would increase from €62.3 million to €80.6 million reflecting the cash cost of the transaction.

Conclusion

In summary, the Society had a very successful 2010 financial year, with an excellent performance and significant increases in prices paid to Members for milk and grain inputs.

In 2011, the Society will be focussed on maximising returns to Members and reducing the debt level, from €80.6m (including the impact of the proposed Reox transaction), to ensure the business is capable of availing of the future growth opportunities post the abolition of quotas.



Directors, Committees *and Other Information*

The Dairygold Management Team



Jim Woulfe
(Chief Executive)



Michael Harte
(Chief Financial Officer)



Sean O'Sullivan
(General Manager Agri Operations)



Tim Healy
(Dairy Operations Director)



John O'Carroll
(General Manager Agri Retail)



Chris Edge
(Dairy Commercial Director)



Eamonn Looney
(Company Secretary)

Board of Directors and Officers

Vincent Buckley (*Chairman*)

Pat Healy (*Vice Chairman*)

Donal Buckley

Adrian Burke

Tom Feeney

John Hally

James Lynch

John Malone

John McKeogh

Patrick O'Keeffe

Bertie O'Leary

Flor Riordan

Pictured (l to r) John Malone, Donal Buckley, John Hally & Patrick O'Keeffe

Pictured (l to r) Patrick Healy (Vice Chairman), Vincent Buckley (Chairman), Jim Woulfe (Chief Executive) & Eamonn Looney (Secretary)



Board Committees

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

Audit Committee

The Audit Committee comprises Messrs Adrian Burke (Chairman), John Hally, John McKeogh and Patrick O'Keeffe. The Chief Executive, Chief Financial Officer, Head of Internal Audit, other Directors, Senior Management and representatives of the external auditors may be invited to attend all or part of any meeting.

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

- » monitoring the integrity of the financial statements of the Society and reviewing significant financial reporting judgements contained in them;
- » reviewing the annual financial statements before submission to the Board;
- » monitoring and reviewing the operation and effectiveness of the internal audit function;

Chief Executive

Jim Woulfe

Registered Office

**Clonmel Road,
Mitchelstown,
Co. Cork.**

Company Secretary

Eamonn Looney

Principal Bankers

Allied Irish Banks plc
Bank of Ireland
Ulster Bank

Auditors

Deloitte & Touche
No. 6 Lapps Quay,
Cork.

*Pictured (l to r) John McKeogh, Thomas Feeney,
Vincent Buckley (Chairman) & Bertie O'Leary*

Pictured are James Lynch, Flor Riordan & Adrian Burke



- » considering and making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and terms of engagement of the external auditors;
- » approving the remuneration of the external auditors for statutory audit work and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted. Reviewing the extent of any non-audit services and related fees;
- » assessing annually the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;

- » reporting to the Board on the operation of the Society's system of internal control and risk management, making any recommendations to the Board thereon;
- » reviewing the arrangements by which employees of the Society may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- » reviewing its own effectiveness as a committee and making any necessary recommendations for change to the Board.

Remuneration Committee

The Remuneration Committee comprises Messrs John Malone (Chairman), Vincent Buckley, Bertie O'Leary and Flor Riordan. The role and responsibilities of the Remuneration Committee are set out in its written terms of reference. The principal responsibilities of the Committee are:

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

*Cheese Plant,
Mitchelstown*

General Committee 2010

Region 1

MALLOW - 13

Mr. Donal Buckley
 Mr. Vincent Buckley
 Mr. Ivor Duloherly
 Mr. Liam Foley
 Mr. John Hedigan
 Mr. Tim Leader
 Mr. John Lenihan
 Mr. Timothy McSweeney
 Mr. Michael O'Hanlon
 Mr. Noel O'Keeffe
 Ms. Elizabeth Sheehan
 Mr. Donal Shinnick
 Mr. Peter Twomey

Region 2

MITCHELSTOWN - 10

Mr. Patrick Clancy
 Mr. Thomas G. Coffey
 Mr. John W. Coughlan
 Mr. Robert Drake
 Mr. Thomas Feeney
 Mr. Michael Gowen
 Mr. Thomas Hyland
 Mr. Philip Leahy
 Mr. Patrick O'Keeffe
 Ms. Mary Twomey-Casey

Region 3

MID-CORK - 14

Mr. Patrick Aherne
 Mr. John Bernard
 Mr. Donal Creedon
 Mr. Jerome Desmond
 Mr. Patrick Healy
 Mr. Richard Hinchon
 Mr. Donal F. Hurley
 Mr. John Joe Kelleher
 Mr. Sean MacSweeney
 Mr. Don McSweeney
 Mr. Michael Murphy
 Mr. Gerard O'Connell
 Mr. Bertie O'Leary
 Mr. Cornelius O'Riordan

Region 4

TIPPERARY - 5

Mr. Philip Coman
 Mr. John Hally
 Mr. Ciaran McGrath
 Mr. Michael Tobin
 Mr. William Walsh

Region 6

CORK/EAST CORK - 8

Mr. Liam Lane
 Mr. Edmond C. Lynch
 Mr. Patrick Millerick
 Mr. Sean O'Brien
 Mr. Barry O'Connor
 Mr. Timothy O'Leary
 Mr. John O'Sullivan
 Mr. Flor Riordan

Region 7

LIMERICK - 10

Mr. Timothy Blackburn
 Mr. William Hickey
 Mr. Daniel Hogan
 Mr. John Hough
 Mr. Roger Keogh
 Mr. James Lynch
 Mr. John McKeogh
 Mr. Martin Stapleton
 Mr. Tony Tuohy
 Mr. David Woulfe



Regional Committees

**AGHABULLOGUE/
RYLANE**

P. Ahern
E. Twomey

AHADILLANE

J. Holmes
P. Sexton

ALLENSBRIDGE

C. Murphy

ANGLESBORO

M. Lenihan
M. Martin

**ANNACOTTY/
BIRDHILL/
KILLALOE**

M. Caplis
J. McKeogh
L. McNamara

ARAGLEN

T. Feeney
P. O'Donoghue

ARDAGH/OLDMILL

D. Hayes
J. Hough
D. Woulfe

ARDFINNAN

W. Walsh

BALLINAMONA

T. O'Regan

BALLINDANGAN

M. O'Doherty
P. O'Keefe

BALLINGEARY

S. O'Sullivan

BALLINHASSIG

T. Allen
J. Crowley

BALLYCLOUGH

D. Buckley
I. Duloherly
A. O'Keefe

BALLYHOOLY

P. Leahy
J. Lenihan

BALLYLOOBY

L. Fitzgerald
E. Morrissey

BALLYMAKEERA

D. Hallissey
B. O'Leary

BALLYPOREEN

P. Clancy
M. Sweeney

**BALLYRICHARD/
COBH**

A. Barry
A. Bird
J. Cashman
P. O'Donovan
M. O'Neill
T. Russell

BAWNMORE

C. O'Riordan

BENGOUR

P. O'Driscoll

BERRINGS/DRIPSEY

P. Healy
B. O'Mahony

**BLACK ABBEY/
KILDIMO**

R. Foley
S. O'Riordan
M. Reidy

BOHERLAHAN

P. Coman
M. Tuohy

BUNRATTY

J. Lynch
K. McInerney

**BUTTEVANT/
TEMPLEMARY**

D. O'Connell
N. O'Keefe
D. Shinnick

CAHIR

T. Marnane
M. Tobin

CAPPAMORE

S. Meehan
M. O'Donoghue

CARRIGALINE

J. Bernard
D. Lynch
J. McCarthy
G. O'Connell

CARRIGNAVAR

Vacancy

**CASTLETOWNROCHE/
KILLAVULLEN**

H. Fitzgerald
B. Lenihan
F. Magner

CAUM/MACROOM

M. Murphy

CHURCHTOWN

J. Hedigan

CLOGHEEN

J. Flynn
J. F. O'Gorman

CLONDROHID

F. O'Connell
S. Roche

**CLOVERFIELD/
CORELISH**

S. O'Brien
T. Tuohy

**COACHFORD/
KILCOLMAN**

D. Finnegan
J. Kelleher

C.M.P.

T. Cashman
P. Lehane
J. Murphy
D. O'Brien
T. O'Leary
J. O'Sullivan
F. Riordan

**CORROGHURM/
MITCHELSTOWN**

P. Condon
M. Fox
D. Kent Jnr
E. O'Brien
E. Quinlan

COURTBRAK

V. Buckley
T. McSweeney

DARRAGH

T.G. Coffey
T. Hyland

DONERAILE

M. Duane
E. Sheehan

DONOUGHMORE

L. Foley
Vacancy

DROMBANNA

W. Hickey
J. O'Brien
W. Walsh

DROMTARIFFE

P. Duggan
J. Lenihan

GALBALLY

T. Blackburn
M. Donovan

GARRYPILLANE

M. Murphy
J. P. Tobin

GLANWORTH

D. Joyce
M. Twomey-Casey

**GLOSHA/
REARCROSS**

R. Keogh
E. O'Toole

GRANAGH/MILTOWN

G. Kennedy
Vacancy

HOLLYFORD

M. O'Connell

**HOSPITAL/KILTEELY/
SARFIELD**

J. Burke
P. Hanley

**INCHIGEELA/
TEERGAY**

D. Creedon
M. McSweeney

KILBEHENNY

W. O'Doherty
M. Russell

KILCORNEY

J. Browne
T. Leader

KILDORRERY

R. Drake
T. O'Donnell

**KILLOWEN/
MOSSGROVE**

J. Canty
D. McSweeney

KILLUMNEY

J. Desmond
T. Griffin

KILNAMARTYRA

P. Cronin
B. Hinchion

KILROSS

D. Hogan
J. O'Neill

KILWORTH

J. Clancy
M. Gowen

KNOCKADEA

J.W. Coughlan
J. Fox

**KNOCKLONG/
GORMANSTOWN**

G. Walsh

LISCARROLL

W. Egan
M. Mangan

LISSARDA

R. Hinchion
S. MacSweeney

LOMBARDSTOWN

F. O'Connor
M. O'Hanlon
P. Twomey

MALLOW

C. Cronin
J. Kenny

**MILLSTREET/
BALLYDALY**

C. Buckley
D. Corkery

MOGEELY

A. DeCogan
J. Dunne
L. Lane
E.C. Lynch
P. Millerick
D. O'Brien
S. O'Brien

MOURNEABBEY

D. Cronin
J. Fitzgerald

MUSKERRY

D. O'Donovan

**NEWMARKET-ON-
FERGUS**

K. Woods

OOLA

G. O'Dwyer
M. Stapleton

OUTRATH

J. Hally
J. Desmond
M. Moloney
J. O'Donnell
T. Prendergast
T. Ryan

PARK

A. Flavin
K. Galvin
B. O'Connor
M. Riordan

RATHDUFF

J. Aherne
T. Buckley

RUSHEEN

G. Buckley

SHINAUGH

Vacancy

**SHOUNLARAGH/
TOGHER**

D. F. Hurley

TEMPLEMARTIN

M. P. Murphy

TERELTON/TOAMES

J. J. Kelleher
L. O'Riordan

**TOURNAFULLA/
MEENAHELA**

D. Aherne
M. Curtin
D. Fitzgerald

Statement of the Board Responsibilities

The Industrial and Provident Societies Acts, 1893 to 1978 require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the profit and loss of the Society for that period. In preparing those financial statements, the board are required to:

- » select suitable accounting policies for the Society and then apply them consistently;
- » make judgments 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 Society will continue in business.

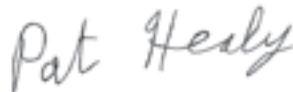
In accordance with Rule 63 of the Society's rules, the Board are responsible for keeping proper books of account which disclose the financial position of the Society and to enable them to ensure that the financial statements are prepared in accordance with Generally Accepted Accounting Practice and comply with Irish statute comprising the Industrial and Provident Societies Acts 1893 to 1978. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board:



Vincent Buckley, Chairman

6 April 2011



Pat Healy, Vice Chairman

6 April 2011

Independent Auditor's Report

to the Members of Dairygold Co-operative Society Limited

We have audited the financial statements of Dairygold Co-operative Society Limited for the year ended 31 December 2010, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Shareholders' Funds, the Statement of Accounting Policies and the related notes on pages 30 to 48 inclusive. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Society's members, as a body, in accordance with Section 13 of the Industrial and Provident Societies Act, 1893. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society'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 are responsible for preparing the Annual Report, including as set out in the Statement of Board Members' Responsibilities, the preparation of the financial statements in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland). The Directors are also responsible for the safeguarding of the assets of the Society.

Our responsibility, as independent auditor, 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 Generally Accepted Accounting Practice in Ireland. We are also required to examine the balance sheet showing the receipts and expenditure, funds and effects of the Society and verify the same with the books, deeds, documents, accounts and vouchers relating thereto and to either sign the same as found by us to be correct, duly vouched and in accordance with law, or specifically report to the Society in what respects we find them incorrect, unvouched, or not in accordance with law.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

The other information comprises only the Chairman's Statement, Chief Executive's Review and the Operations and Financial Review. Our responsibilities do not extend to other information.

Basis of Audit Opinion

We conducted our audit in accordance with the 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 Society's circumstances and the Group, consistently applied and adequately disclosed.

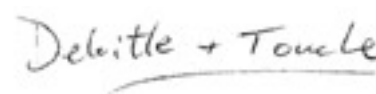
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Society and the Society as at 31 December 2010 and of the results of the Society for the year then ended.

The Society's balance sheet is in agreement with the books of account which, in our opinion, have been properly kept.

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



Chartered Accountants
and Registered Auditors
No. 6 Lapp's Quay, Cork.

6 April 2011

Consolidated profit and loss account

for the year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
TURNOVER	1	693,559	555,175
OPERATING PROFIT before goodwill amortisation	2	27,326	14,520
Goodwill amortisation	9	(1,090)	(1,061)
OPERATING PROFIT		26,236	13,459
Share of losses of associates		(7,514)	(1,044)
Fundamental reorganisation and restructuring costs	3	(18)	(1,019)
Interest payable and similar charges	4	(4,897)	(4,369)
Interest receivable and similar income	4	4,478	3,419
PROFIT on ordinary activities before taxation		18,285	10,446
Taxation charge on profit on ordinary activities	6	(1,177)	(875)
PROFIT after taxation		17,108	9,571
Minority interest	22	(352)	(258)
PROFIT for the financial year		16,756	9,313
Share interest	7	(1,233)	(1,238)
RETAINED PROFIT for the year	20	15,523	8,075

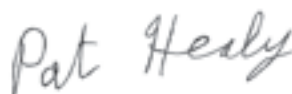
The above results are derived from continuing operations.

On behalf of the Board:



Vincent Buckley, Chairman

6 April 2011



Pat Healy, Vice Chairman

6 April 2011

Consolidated balance sheet

as at 31 December 2010

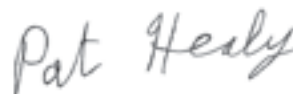
	Notes	2010 €'000	2009 €'000
FIXED ASSETS			
Tangible assets	8	119,718	127,948
Intangible assets	9	13,963	14,668
Financial assets	10	59,037	66,423
		192,718	209,039
CURRENT ASSETS			
Stocks	11	86,853	73,086
Debtors	12	105,801	98,963
Bank and cash		4,872	9,533
		197,526	181,582
CREDITORS falling due within one year	13	(113,397)	(105,129)
NET CURRENT ASSETS		84,129	76,453
TOTAL ASSETS LESS CURRENT LIABILITIES			
Less:			
CREDITORS falling due after more than one year	14	(46,615)	(68,116)
PROVISION FOR LIABILITIES AND CHARGES			
Capital grants	16	(5,492)	(6,311)
Deferred taxation	17	(364)	(441)
		224,376	210,624
PENSION ASSET	18	16,913	10,100
NET ASSETS		241,289	220,724
CAPITAL AND RESERVES			
Share capital	19	96,430	98,617
Capital reserves	20	1,007	1,007
Revaluation reserve	20	6,946	6,946
Bonus reserve	20	138	138
Profit and loss account	20	135,782	113,382
SHAREHOLDERS' FUNDS		240,303	220,090
Minority interest	22	986	634
CAPITAL EMPLOYED		241,289	220,724

On behalf of the Board:



Vincent Buckley, Chairman

6 April 2011



Pat Healy, Vice Chairman

6 April 2011

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
Net cash inflow from operating activities	24	29,288	19,176
Returns on investments and servicing of finance	25	(4,540)	(1,869)
Taxation paid		(1,722)	(619)
Capital expenditure and financial investment	26	(5,720)	(18,942)
Acquisitions and disposals	27	-	(2,643)
Equity share interest paid		(1,235)	(1,296)
Financing	28	(1,171)	(1,338)
Increase/(Decrease) in cash in the year		14,900	(7,531)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2010

	2010 €'000	2009 €'000
Increase/(Decrease) in cash in the year	14,900	(7,531)
Loans / leases acquired	-	(4,653)
Non cash movements	654	2,502
Movement in net debt	15,554	(9,682)
Net debt at 1 January	(77,886)	(68,204)
Net debt at 31 December	(62,332)	(77,886)

Analysis of net debt

	At 1 January 2010 €'000	Cash flow €'000	Non cash movement €'000	At 31 December 2010 €'000
Cash and bank balances	9,533	(5,315)	654	4,872
Invoice discounting / overdrafts	-	(12,047)	-	(12,047)
Finance leases	(225)	-	-	(225)
	9,308	(17,362)	654	(7,400)
Debt due within one year	(20,000)	10,000	-	(10,000)
Debt due after one year	(65,500)	22,000	-	(43,500)
Finance leases	(1,694)	262	-	(1,432)
	(87,194)	32,262	-	(54,932)
	(77,886)	14,900	654	(62,332)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2010

	2010 €'000	2009 €'000
Profit for the financial year	16,756	9,313
Share of associates' reserves movements	2,123	(2,068)
Currency translation difference on net investment	1,232	2,572
Difference between actual and expected return on pension schemes' assets	(88)	9,974
Experience gains arising on pension schemes' liabilities	200	2,624
Effects of changes in assumptions underlying the present value of pension schemes' liabilities	4,384	(10,061)
Gain arising on exit of a participating employer from pension scheme	-	6,090
Deferred tax associated with gain arising on exit of a participating employer from pension scheme	-	(761)
Deferred tax associated with movement on pension schemes	(974)	(300)
Total recognised gains relating to the year	23,633	17,383

Reconciliation of movement in shareholders' funds for the year ended 31 December 2010

	<i>Notes</i>	2010 €'000	2009 €'000
Total recognised gains relating to the year		23,633	17,383
Share interest	7	(1,233)	(1,238)
Issue of ordinary shares including conversions	19	199	4
Dividends associated with cancelled shares		-	31
Shares redeemed	19	(2,386)	(1,342)
Net change in shareholders' funds		20,213	14,838
Opening shareholders' funds		220,090	205,252
Closing shareholders' funds		240,303	220,090

Statement of Accounting Policies

The significant accounting policies adopted by the Society are as follows:

Basis of Preparation:

The financial statements have been prepared in accordance with generally accepted accounting standards in Ireland and the Irish Industrial and Provident Societies Acts, 1893 to 1978. The financial statements have also been prepared on the basis that the proposed transaction with Reox Holdings plc (as stated in note 31) is completed, thereby realising the carrying value of the investment in assets due from Reox Holdings plc as recorded in these financial statements.

Accounting Convention:

The financial statements, which are denominated in euros, are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Basis of Consolidation:

The consolidated financial statements incorporate:

- the accounts of Dairygold Co-Operative Society Limited ("the Society") and its subsidiaries for the year ended to 31 December 2010.
- the Society's share of the results and post acquisition reserves of associates as reported in the latest audited financial statements. This is to 30 June 2010 for Reox Holdings plc and 31 December 2009 for the other associates.
- any material adjustments for associates arising between the date of their latest financial statements as above and the year end of the Society and consequently Reox Holdings plc results are incorporated to 31 December 2010.
- Any material differences between the Societies accounting policies and that of its associates, where required.

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

The interests of minority shareholders in subsidiary companies reflect the minority's proportion of the net assets of the relevant subsidiaries.

The results of overseas subsidiary companies are translated into euros at the average rate for the year. The assets and liabilities of overseas subsidiary companies have been consolidated at the rate of exchange ruling on the balance sheet date. Surpluses or deficits arising on the translation of overseas subsidiary companies' net assets are included in reserves.

Turnover:

Turnover represents the invoiced value of goods and services to third parties, including EU export refunds and excluding value added tax. Turnover is recognised when the Society receives the right to consideration as ownership and risk passes to third parties.

Share Trading:

Accounting for Transactions

Investment transactions are accounted for on the trade date. All investments are stated at cost and are not subsequently revalued. Realised gains and losses on investment disposals are calculated using the first in first out method based on the difference between the original cost and the disposal amount.

A provision is made for impairment in value particularly in the case where impairment is permanent as evidenced by losses crystallised post year end.

Investment Income and Expenses

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

Tangible Fixed Assets and Depreciation:

Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation is calculated to write off the cost or valuation of tangible fixed assets other than freehold land over their estimated useful lives by equal annual instalments at the following annual rates:

Buildings: 2.0% - 10.0%

Plant and machinery: 7.5% - 33.3%

Motor vehicles: 12.5% - 25.0%

The carrying value of tangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Impairment is assessed by comparing the carrying value of an asset with its recoverable amount (being the higher of net realisable value and value in use). Net realisable value is defined as the amount at which an asset could be disposed of net of any direct selling costs. Value in use is defined as the present value of the future cash flows obtainable through continued use of an asset including those to be realised on its eventual disposal.

Leased Assets:

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership are capitalised. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is charged to the profit and loss account so as to produce a constant periodic rate of charge. Rentals in respect of all other leases are charged to the profit and loss account as incurred.

Goodwill:

Goodwill arising on acquisitions representing the excess of the total cost of the Society's investment over the fair value of the separable net assets acquired is amortised over its expected useful economic life of twenty years, on a straight line basis. The carrying value of goodwill is reviewed annually and provision is made for any impairment.

Intangible Assets:

Purchased intangible assets are included at cost and amortised in equal annual instalments over a period of twenty years which is their estimated useful economic life. A provision is made for any impairment in value.

Financial Fixed Assets:

Associated undertakings are those undertakings in which the Society has a significant interest in the equity capital and over which it is able to exercise significant influence. Joint venture undertakings are those undertakings in which the Society has a joint interest in the equity capital and over which it jointly exercises control.

Statement of Accounting Policies (continued)

Joint ventures and associates are accounted for using the gross equity method and equity method respectively. The group's share of the profits less losses of joint ventures and associates are included in the consolidated profit and loss account. The group's interests in their net assets or liabilities are included as fixed asset investments in the consolidated balance sheet at an amount representing the group's share of the fair values of the net asset at acquisition plus the group's share of post acquisition retained profits or losses. A provision is made for any impairment in value. Goodwill arising on acquisition of joint ventures and associates is dealt with as stated above.

Trade investments are those undertakings in which the Society does not exercise a significant or participating interest. The Society's interest in these undertakings is stated at cost, less provision for permanent diminution in value.

Stocks:

Stocks are valued at the lower of cost and net realisable value.

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

Cost in the case of work-in-progress and finished goods comprises direct material and labour costs and an appropriate proportion of manufacturing overheads based on normal production levels.

Net realisable value represents the estimated sales price less costs to completion and all appropriate holding, selling and distribution expenses.

Taxation:

Corporation tax is calculated on the result for the year at a standard rate after taking account of capital allowances, manufacturing relief, loss relief, tax charged at various rates and tax adjustments.

Deferred Taxation:

Deferred taxation is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- i) provision is not made for tax on gains arising from the revaluation of fixed assets unless there is a binding agreement for the disposal of assets.
- ii) deferred tax assets are recognised only to the extent that the board of directors consider that it is more likely than not that there will be suitable future taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse based on existing tax rates and law.

Capital Grants:

Grants receivable in respect of tangible fixed assets are included in the financial statements when the amounts have been ascertained with reasonable certainty and are released to the profit and loss account in equal annual instalments over the expected useful lives of the relevant assets.

Revenue Grants:

Revenue based grants are accounted for in the year in which the related expenditure is incurred and are dealt with directly through the profit and loss account.

Debtors:

Known bad debts are written off and specific provision is made for any amount the collection of which is considered doubtful. A further general provision is also maintained.

Provisions:

Provisions are charged against the profits of the Society where there may exist a liability, arising from present obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate. Where material, some provisions are discounted.

Research and Development:

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Foreign Currencies:

Foreign currency transactions by entities during the year have been translated at the rates ruling at the time of these transactions.

Monetary assets and liabilities arising in foreign currencies have been retranslated at rates ruling at the balance sheet date.

Exchange differences have been included in the profit and loss account for the year.

Pensions:

Defined Benefit:

Under Financial Reporting Standard 17 Retirement Benefits, pension scheme assets are measured using fair values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full, net of deferred tax and presented on the face of the balance sheet. The movement in the scheme surplus/deficit is split between operating and financing items in the profit and loss account and the statement of total recognised gains and losses.

The full service cost of the pension provision is charged to operating profit. The net impact of the unwinding of the discount rate on scheme liabilities and the expected return of the scheme assets is charged and credited to finance costs.

Any difference between the expected return on assets and that actually achieved is charged through the statement of total recognised gains and losses. Similarly, any differences that arise from experience or assumption changes are charged through the statement of total recognised gains and losses.

Defined Contribution:

Retirement benefits to employees are funded by contributions from the Society and employees. Payments are made to pension trusts which are financially separate from the Society.

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

Notes to financial statements

1 Turnover

Geographical Analysis by Destination:

	2010 €'000	2009 €'000
Ireland	280,287	245,076
United Kingdom	139,763	131,167
Rest of Europe	167,281	103,082
Rest of World	106,228	75,850
	693,559	555,175

Principal Activities by Class of Business:

Dairygold Food Ingredients	480,854	366,018
Agricultural and Retailing	192,099	170,714
Finance	20,606	18,443
	693,559	555,175

Segmental information, by market, has not been given because, in the opinion of the Board of Directors, to do so would be prejudicial to the interests of the Society.

2 Operating profit

	2010 €'000	2009 €'000
Turnover - Note 1	693,559	555,175
Less:		
Raw materials and consumables	533,612	447,037
Payroll costs - Note 5	50,481	45,493
Operating costs	59,189	45,071
Depreciation - Note 8	15,211	14,941
Grant amortisation - Note 16	(837)	(804)
Change in stock of finished goods and goods for resale	8,577	(11,083)
	27,326	14,520

Notes to financial statements

3 Fundamental reorganisation and restructuring costs

	2010 €'000	2009 €'000
Cost of redundancies and restructuring of on-going businesses	(18)	(1,019)

The exceptional charge for the year includes both the release of provisions made in previous years for the restructuring of DFI Ireland's Dairy processing operations and provision made for obligations in respect of fundamental reorganisation of operations in that division in the future.

4 Net interest (payable) / receivable and similar (charges) / income

	2010 €'000	2009 €'000
Interest payable and similar charges	(4,897)	(4,369)
Interest receivable and similar income		
RIBB interest receivable - Note 10	413	2,475
Bank interest receivable	80	125
Interest receivable and similar income relating to pensions	3,985	819
	4,478	3,419
	(419)	(950)

Included in interest payable and similar charges are costs associated with securing the ongoing funding for the Society.

5 Payroll costs

	2010 Number	2009 Number
The weekly average number of employees:		
Dairygold Food Ingredients	534	516
Dairygold Agri Business	554	418
	1,088	934
Payroll costs comprise:	€'000	€'000
Wages and salaries	43,394	39,707
Social welfare costs	3,939	3,575
Pension costs	3,148	2,211
	50,481	45,493

Notes to financial statements

6 Taxation charge on profit on ordinary activities

	2010 €'000	2009 €'000
Corporation tax		
Irish tax	(791)	(845)
Foreign tax	(567)	(1,077)
	(1,358)	(1,922)
Prior year provision movement		
Irish tax	223	158
Foreign tax	24	(41)
	(1,111)	(1,805)
Share of associates' tax	(143)	184
Total corporation tax	(1,254)	(1,621)
Deferred taxation credit - Note 17	77	746
	(1,177)	(875)

The tax assessed for the year is different from the standard rate of corporation tax in Ireland (12.5%), as follows:

Profit before taxation	18,285	10,446
Corporation tax at standard rate	(2,286)	(1,306)
Effects of:		
Expenses not deductible for tax purposes	(748)	(221)
Manufacturing relief	-	92
Excess depreciation over capital allowances	(217)	(313)
Higher tax rates (non-trading income)	(44)	(12)
Non taxable income	27	39
Losses brought forward	2,170	377
Higher tax rates (overseas)	(260)	(578)
	(1,358)	(1,922)

7 Share interest

	2010 €'000	2009 €'000
Share interest paid @ 1.25% (2009 : 1.25%)		
Ordinary share capital	1,233	1,238
	1,233	1,238

The Board has recommended that share interest of 1.25% be paid on the Share Capital in issue at 31 December 2010. This will amount to €1,205,000 and is subject to approval at the Annual General Meeting.

Notes to financial statements

8 Tangible assets

	Land & buildings €'000	Plant & machinery €'000	Motor vehicles €'000	Total €'000
COST OR VALUATION				
At 1 January				
Cost	39,955	152,111	3,299	195,365
Valuation	35,749	55,872	-	91,621
	75,704	207,983	3,299	286,986
Additions	346	6,425	27	6,798
Disposals	-	(349)	(15)	(364)
Translation adjustments	112	267	1	380
At 31 December				
Cost	40,413	158,454	3,312	202,179
Valuation	35,749	55,872	-	91,621
	76,162	214,326	3,312	293,800
DEPRECIATION				
At 1 January	25,290	131,933	1,815	159,038
Charged during year	2,845	11,996	370	15,211
Relating to disposals	-	(346)	(8)	(354)
Translation adjustments	21	165	1	187
At 31 December	28,156	143,748	2,178	174,082
NET BOOK VALUE				
At 31 December 2010	48,006	70,578	1,134	119,718
At 31 December 2009	50,414	76,050	1,484	127,948

A professional valuation of substantially all the Society's land, buildings and plant and machinery was undertaken by Lisney during 1996. The basis of valuation was depreciated replacement cost in existing use or, where appropriate, open market value. The valuation was incorporated into the financial statements and the surplus arising taken to the revaluation reserve.

The valuers also estimated the remaining useful lives of the assets.

The Society has not adopted a policy of annual revaluations as permitted by Financial Reporting Standard 15.

The directors have taken the view that a reasonable valuation on the cost of tangible fixed assets under a historical cost basis would be €200 million.

Notes to financial statements

9 Intangible assets

	2010 €'000	2009 €'000
GOODWILL		
COST		
At 1 January	20,382	19,130
Translation adjustments	589	1,252
At 31 December	20,971	20,382
AMORTISATION		
At 1 January	6,497	5,112
Charged during year	1,047	1,018
Translation adjustments	204	367
At 31 December	7,748	6,497
NET BOOK VALUE		
At 31 December	13,223	13,885
OTHER INTANGIBLE ASSETS		
COST		
At 1 January and 31 December	844	844
AMORTISATION		
At 1 January	61	18
Charged during year	43	43
At 31 December	104	61
NET BOOK VALUE		
At 31 December	740	783
NET BOOK VALUE		
TOTAL	13,963	14,668

Notes to financial statements

10 Financial assets

	2010 €'000	2009 €'000
ASSOCIATES		
Share of net assets - 1 January		
Net assets other than goodwill	9,914	9,885
Goodwill	2,897	5,854
Share of results (net of taxation)	(7,657)	(860)
Share of associates reserve movements	2,123	(2,068)
Share of net assets - 31 December		
Net assets other than goodwill	4,541	9,914
Goodwill	2,736	2,897
	7,277	12,811
Loans to associates	85	85
Redeemable Interest Bearing Bond (RIBB) see below	33,000	33,000
Balance	40,362	45,896
UNQUOTED		
Shares at cost - 1 January and 31 December	139	139
QUOTED		
Shares at cost - 1 January	9,619	9,115
Additions	11,868	21,318
Disposals	(14,064)	(20,733)
Impairment	743	(81)
Shares at cost - 31 December	8,166	9,619
LOAN STOCK		
At - 1 January	10,769	11,633
Additions	954	705
Redemptions	(1,353)	(1,569)
At - 31 December	10,370	10,769
TOTAL	59,037	66,423

- a) The associates are included in the accounts at the cost of the investment and the Society's share of post acquisition reserves.
- b) The share of reserve movements of associates in 2010 includes an amount of nil (2009: €29,000) relating to changes in shareholding structures of associated groups.
- c) In the opinion of the Board of Directors, the value of the unquoted investments is not less than that shown above.
- d) The market value of the quoted investments excluding Reox Holdings plc at 31 December 2010 was €24,937,000 (2009: €34,658,000).
- e) The loan stock refers to unconverted loan stock received from the Irish Dairy Board based on the Society's trading activity with it.

Notes to financial statements

10 Financial assets (continued)

Details of principal subsidiaries and associates are included in Note 36 to these financial statements.

The Redeemable Interest Bearing Bond (RIBB) was issued on 3 March 2006 by Reox Holdings plc to the Society. The principal conditions attaching to the RIBB are:

- » Interest for first four years will be at a rate of 7.5% per annum.
- » Interest for remaining years will be 6% per annum.
- » Redemption of the RIBB may commence on the day after the fifth anniversary of the date of issue at the discretion of the holder.
- » Redemption is permitted at a rate of €6,600,000 per annum.

In the year ended to 31 December 2010, interest on the RIBB has only been recognised up to 2 March 2010 and the interest due for the preceding 12 months remains unpaid.

The following additional disclosures as set out in Financial Reporting Standard 9, Associates and Joint Ventures, are provided:

Disclosure in aggregate of the Co-Op's share of results of all associates and joint ventures:

	2010 €'000	2009 €'000
Turnover	23,374	61,107
Fixed assets	29,904	36,042
Current assets	9,640	12,946
Liabilities due within one year	(15,149)	(22,140)
Liabilities due after one year	(16,666)	(13,332)

The results detailed below for Reox Holdings plc are disclosed separately based on criterion specified in Financial Reporting Standard 9, Associates and Joint Ventures, as follows:

Name:	Reox Holdings plc €'000
The Co-Op's share of:	
Turnover	6,546
Loss before exceptional items	(7,059)
Exceptional items	(495)
Loss before taxation	(7,554)
Taxation	(122)
Loss after taxation	(7,676)
Fixed assets	24,474
Current assets	1,467
Liabilities due within one year	(8,398)
Liabilities due after one year	(15,890)

Notes to financial statements

11 Stocks

	2010 €'000	2009 €'000
Raw materials	11,883	6,652
Finished goods	51,276	40,914
Goods for resale	20,342	22,127
Expense stocks	3,352	3,393
	86,853	73,086

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

12 Debtors falling due within one year

	2010 €'000	2009 €'000
Trade debtors	86,895	82,201
Prepayments and accrued income	10,894	9,034
Amounts due from related parties - Note 31	6,575	6,164
V.A.T.	1,437	1,564
	105,801	98,963

13 Creditors falling due within one year

	2010 €'000	2009 €'000
Bank loans, invoice discounting and overdrafts	22,047	20,000
Obligations under finance leases - Note 15	225	225
Trade creditors	31,670	30,283
Accruals and deferred income	56,315	49,800
Amounts due to related parties - Note 31	1,052	2,122
Corporation tax	244	854
PAYE and PRSI	1,589	1,845
Loan stock - Note 23	255	-
	113,397	105,129

14 Creditors falling due after more than one year

	2010 €'000	2009 €'000
Bank loans falling due between one and two years	10,000	65,500
Bank loans falling due between two and five years	33,500	-
Obligations under finance leases - Note 15	1,432	1,694
Other loans	680	680
Convertible stock - Note 21	239	242
Loan stock - Note 23	764	-
	46,615	68,116

Notes to financial statements

15 Obligations under finance leases

	2010 €'000	2009 €'000
Falling due within one year	225	225
Falling due after more than year	1,432	1,694
	1,657	1,919

16 Capital grants

	2010 €'000	2009 €'000
At 1 January	6,311	6,301
Receivable during year	18	814
Credited to profit and loss account	(837)	(804)
At 31 December	5,492	6,311

17 Deferred taxation

	2010 €'000	2009 €'000
At 1 January	441	1,754
Relating to an acquisition of a subsidiary and a business	-	(567)
Credited to profit and loss account	(77)	(746)
At 31 December	364	441

The deferred tax arose due to timing differences, relating to the manner in which items are treated in the profit and loss account from an accounting perspective as opposed to from a taxation perspective, in addition to the existence of losses forward. The Society had unrecognised deferred tax assets of €3,079,819 at the end of the year. This asset has not been recognised due to uncertainty surrounding the timing of future profits.

Deferred tax in relation to the pension schemes' is dealt with under the pension's note 18 in accordance with the provisions of Financial Reporting Standard 17, Retirement Benefits.

18 Pension asset

Dairygold Pension Schemes

During the year a process was completed which amalgamated a number of externally funded defined benefit schemes, to which the Society had contributed, into a single defined pension scheme. This consolidated pension scheme was set up with effect from 1 September 2010 and the assets and liabilities of the previously operated pension schemes were transferred to the consolidated pension scheme at that date.

The Society now operates and contributes to one consolidated externally funded defined benefit pension scheme and a number of other defined contribution pension schemes. In addition the Society participates in an industry wide Irish Co-Operative Societies Pension Scheme, further detail on this scheme is set out later in this note.

The valuation of the pension plan was performed in accordance with generally accepted actuarial principles and procedures. The accounting calculations reported herein are based on the assumptions, methods and accounting policies selected by Mercer, professional pension service providers, on behalf of the Society. The pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit method of funding.

Notes to financial statements

18 Pensions (continued)

The most recent full actuarial valuations in respect of the Irish Funds were carried out as at 1 January 2008. The principal assumptions used in the actuarial valuations were that the difference between the investment return and general payroll increases and future pension payments would be 2.5% greater. At the date of the latest actuarial valuations, the market value of the assets was €242.6 million and the actuarial value of the assets was sufficient to cover in excess of 100% of the benefits that had accrued to Members, after allowing for future expected increases in pensionable remuneration.

The actuaries' reports are not available for public inspection but the results are advised to the Members of the various schemes.

To develop the expected long-term rate of return on asset assumptions, the Trustees considered the current level of expected returns on low risk investment (government bonds), the historical level of risk premium associated with the other classes in which the portfolio is invested (equities) and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long term rate of return on asset assumptions for the portfolio.

The main financial assumptions are:

	2010	2009	2008
	%	%	%
Inflation rate increase	2.00	2.00	2.00
General payroll rate increase	3.50	3.50	3.50
Pension payment increase	2.00	2.00	2.00
Discount rate	5.25	5.25	5.75
The expected long-term rates of return for:			
Equities	8.60	8.60	8.50
Bonds	3.80	3.80	3.70
Property	7.60	7.60	6.00

Mortality assumptions:

Membership of the Group's pension plans is too small to allow a statistical analysis of mortality experience suitable for facilitating a scheme specific projection of future experience. In the circumstances standard mortality tables have been employed. These tables include allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Weighted average asset allocation at the period end were as follows:

	As at December 2010		As at December 2009	
	Male	Female	Male	Female
Members age 65 (current life expectancy)	22.9	25.2	21.4	24.5
Members age 45 (current life expectancy)	24.3	26.3	22.2	25.3

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

Assumptions	Change in assumption	% Impact on scheme liabilities
Discount rate	Increase by 0.25%	Decrease by 5.0%
Rate of inflation	Increase by 0.50%	Increase by 9.6%
Rate of salary growth	Increase by 0.50%	Increase by 1.5%
Rate of mortality	Increase by 1 year	Increase by 2.30%

Notes to financial statements

18 Pensions (continued)

Plan assets

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

	2010 %	2009 %
Equities	57.6%	58.3%
Bonds	37.5%	36.3%
Property	4.9%	5.4%
	100%	100%

The overall surplus in the scheme/schemes at 31 December is:

	2010 €'000	2009 €'000	2008 €'000
Fair value of assets:			
Equities	124,590	121,303	59,365
Bonds	81,114	75,499	44,225
Property	10,599	11,137	8,266
	216,303	207,939	111,856
Present value of schemes' liabilities	(196,974)	(190,672)	(108,803)
Effects of surplus cap	-	(5,725)	-
Surplus in schemes	19,329	11,542	3,053
Related deferred tax	(2,416)	(1,442)	(382)
Closing pension asset	16,913	10,100	2,671

The amounts included within operating profit for the year under FRS 17 are as follows:

	2010 €'000	2009 €'000
Current service cost	2,560	1,780
Total charged within operating profit	2,560	1,780

The amounts included within finance income for the year under FRS 17 are as follows:

	2010 €'000	2009 €'000
Expected return on the pension schemes' assets	13,973	7,087
Interest on the past service schemes' liabilities	(9,988)	(6,268)
Net finance credit within finance costs	3,985	819

The analysis of amounts recognised in the statement of total recognised gains and losses:

	2010 €'000	2009 €'000
Actual return less expected return on the pension schemes' assets	(88)	9,974
Experience gains arising on the schemes' liabilities	200	2,624
Changes in assumptions underlying the present value of the schemes' liabilities	4,384	(10,061)
Actuarial gain recognised in statement of total recognised gains and losses	4,496	2,537

Notes to financial statements

18 Pensions (continued)

Movement in pension scheme assets:	2010	2009
	€'000	€'000
Value at 1 January	207,939	111,856
Expected return on assets	13,973	7,087
Actual return (under) / over expected return on assets	(88)	9,974
Employer contributions	1,866	823
Plan participants' contributions	1,186	978
Benefit payments and expenses	(8,573)	(4,700)
Transfer from Reox Holdings plc		81,921
Value at 31 December	216,303	207,939

Movement in pension scheme liabilities:		
Value at 1 January	(190,672)	(108,803)
Current service cost	(2,560)	(1,780)
Interest cost	(9,988)	(6,268)
Experience gains on liabilities	200	2,624
Losses due to assumption changes	-	(10,011)
Adjustment due to surplus cap	(1,341)	90
Plan participants' contributions	(1,186)	(978)
Benefit payments and expenses	8,573	4,700
Transfer from Reox Holdings plc	-	(70,246)
Value at 31 December	(196,974)	(190,672)

The history of experience losses and gains has been:

	2010	2009	2008	2007	2006
	€'000	€'000	€'000	€'000	€'000
Difference between the expected and actual return on schemes' assets	(88)	9,974	(36,630)	(3,600)	4,169
Percentage of schemes' assets	(0.04%)	4.80%	(32.70%)	(2.51%)	2.94%
Experience gains and losses arising on the schemes' liabilities	200	2,624	(1,584)	(1,882)	(8,135)
Percentage of past service schemes' liabilities	0.10%	1.38%	(1.50%)	(1.66%)	(7.05%)
Amount that has been recognised in statement of total recognised gains and losses	4,496	2,537	(27,584)	2,284	10,465
Percentage of past service schemes' liabilities	2.28%	1.33%	(25.40%)	2.01%	9.07%

Notes to financial statements

18 Pensions (continued)

Irish Co-Operative Societies Pension Scheme

The Society also participates in an industry wide Irish Co-Operative Societies Pension Scheme. This is a multi-employer defined benefit scheme. However, as the underlying assets and liabilities attributable to individual employers cannot be identified on a consistent and reasonable basis, the Society is accounting for the pension scheme as if it were a defined contribution scheme in accordance with FRS 17. The charge in the profit and loss account in respect of this plan was €253,000 (2009: €282,000).

The most recent actuarial valuation of the scheme was carried out as at 1 July 2008 and updated to 1 February 2009. At this date the actuarial value of the assets of the scheme was insufficient to cover 100% of the benefits that had accrued to Members. The funding level was 69% at 1 February 2009. The actuarial report for this scheme is available for inspection by Members of the scheme but not for public inspection.

Pension Cost

The total pension cost charged to the operating profit was €3,148,000 (2009: €2,211,000). Valuations have been performed in accordance with the requirements of Financial Reporting Standard 17, Retirement Benefits, as at 31 December 2010. Scheme liabilities have been calculated using a consistent projected unit valuation method and compared to the schemes' assets at the valuation date.

19 Share capital - Issued ordinary shares of €1 each

	2010 €'000	2009 €'000
At 1 January	98,617	98,997
Shares issued	198	4
Bonus issues from bonus reserve - Note 20	-	1,039
Conversion of convertible stock - Note 21	1	1
Shares redeemed	(2,386)	(1,342)
Shares cancelled	-	(82)
At 31 December	96,430	98,617

In 2010, the Society introduced a revised share redemption process, whereby the value of shares redeemed up to €5,000 or 30% of such value, if greater, was paid in cash in the year. The balance was transferred to a loan stock account, which will be paid in equal instalments over the following four years.

	2010 €'000	2009 €'000
Cash Paid	(1,367)	(1,342)
Arising as Loan Stock - Note 23	(1,019)	-
Shares redeemed	(2,386)	(1,342)

In common with other Societies incorporated under the Industrial and Provident Societies Acts, 1893 to 1978, the Society does not have an authorised share capital. The rules make provision for the issue of shares at the discretion of the Board and for the issue of convertible stock and loan capital. Any issues have taken place at par.

Notes to financial statements

20 Reserves

	Capital reserves €'000	Revaluation reserve €'000	Bonus reserve €'000	Profit & Loss account €'000
At 1 January	1,007	6,946	138	113,382
Arising on currency translation	-	-	-	1,232
Actuarial gain recognised in the statement of total recognised gains and losses (net of deferred tax)	-	-	-	3,522
Share of associates' reserves movements	-	-	-	2,123
Profit for year	-	-	-	15,523
At 31 December	1,007	6,946	138	135,782
Society and subsidiaries	1,007	6,946	138	130,609
Associates	-	-	-	5,173
At 31 December	1,007	6,946	138	135,782

21 Convertible stock

	2010 €'000	2009 €'000
At 1 January	242	243
Conversion to share capital - Note 19	(1)	(1)
Stock redeemed	(2)	-
At 31 December	239	242

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

22 Minority Interest

	2010 €'000	2009 €'000
At 1 January	634	376
Profit on ordinary activities after taxation	352	258
At 31 December	986	634

23 Loan stock

	2010 €'000	2009 €'000
At 1 January	-	-
Arising on share redemption - Note 19	1,019	-
At 31 December	1,019	-
Falling due within one year	255	-
Falling due after more than one year	764	-

Notes to financial statements

24 Reconciliation of operating profit to net cash inflow from operating activities

	2010 €'000	2009 €'000
Operating profit	26,236	13,459
Depreciation	15,211	14,941
Difference between current service pension cost and payments made	694	957
Capital grants credit	(837)	(804)
Goodwill and other intangible asset amortisation	1,090	1,061
Cash related to business termination's and fundamental restructuring	(1,268)	(1,992)
(Increase) / Decrease in stocks	(13,767)	13,968
(Increase) / Decrease in debtors	(6,129)	(2,305)
Increase / (Decrease) in creditors	8,058	(20,109)
Net cash inflow from operating activities	29,288	19,176

25 Returns on investments and servicing of finance

	2010 €'000	2009 €'000
Interest received	80	2,600
Interest paid	(4,620)	(4,469)
	(4,540)	(1,869)

26 Capital expenditure and financial investment

	2010 €'000	2009 €'00
Payments to acquire tangible fixed assets	(7,600)	(20,115)
Payments to acquire financial fixed assets	(12,822)	(20,792)
Receipts on disposal fixed assets	10	-
Receipts on disposals of financial fixed assets	14,674	21,151
Capital grants	18	814
	(5,720)	(18,942)

27 Acquisitions and disposals

	2010 €'000	2009 €'000
Payments to acquire a subsidiary and a business	-	(2,643)
	-	(2,643)

Notes to financial statements

28 Financing

	2010 €'000	2009 €'000
Issue of share capital	198	4
Redemption of shares	(1,367)	(1,342)
Redemption of convertible stock	(2)	-
	(1,171)	(1,338)

29 Fair value

On 15 September 2009, Dairygold Food Ingredients (France) SAS acquired the entire capital of Solailoire SARL and on 21 October 2009 Dairygold Agri Business Limited acquired the business of seven 4HOME stores.

The initial fair value assigned to assets and liabilities, as set out below, were in respect of acquisitions completed during 2009 (where these initial fair values were not readily or practicably determinable at the time of acquisition). The following fair value adjustment refers only to the acquisition of Solailoire SARL.

	Initial fair value assigned €'000	Adjustments €'000	Revised fair value €'000
Tangible fixed assets	6,475	(125)	6,350
Stocks	1,635	-	1,635
Debtors	275	-	275
Creditors	(1,205)	-	(1,205)
Bank loans	(2,719)	-	(2,719)
Finance leases	(1,935)	-	(1,935)
Bank overdraft	(177)	-	(177)
Pension	300	-	300
Deferred tax	567	-	567
Value acquired	3,216	(125)	3,091
Satisfied by:			
Consideration paid	1,867		1,867
Consideration deferred	750	(125)	625
Acquisition costs	599	-	599
	3,216	(125)	3,091

Notes to financial statements

30 Financial commitments

Future investments and capital expenditure approved by the Board and not provided for in these financial statements amounted to €1,520,000 (2009: €4,486,000).

The Society has operating lease commitments, as set out below:

	2010 €'000	2009 €'000
Payable within 12 months	497	347
Payable within 1 - 2 years	562	497
Payable within 3 - 5 years	1,249	1,746
Payable greater than 5 years	-	65
	2,308	2,655

It is proposed that these lease commitments will be cancelled as part of the transaction proposed to be entered into with Reox Holdings plc (see note 31).

At 31 December 2010, there were open forward foreign exchange contracts of approximately €9.3 million, on which there was an unrealised foreign exchange loss of €40,000 at that date.

31 Related party transactions

The Group's related parties, as defined by Financial Reporting Standard No. 8, Related Party disclosures, the nature of the relationships and the extent of transactions with them are summarised below. The Group views key management personnel, directors and companies controlled by them, associate undertakings and non-wholly owned subsidiaries as related parties under the standard.

The Society purchases goods and services from its associates and sells goods and services to its associates on standard commercial terms. The purchases from and sales to the associates during 2010 amounted to €8,534,000 (2009: €6,932,000) and €2,090,000 (2009: €6,767,000) respectively. The trading balances outstanding by and to the Society amounted to €456,000 (2009: €1,532,000) and €32,000 (2009: €26,000) respectively at the year end.

The Society purchases and sells goods and services from and to a non-wholly owned subsidiary, Munster Cattle Breeding Group Limited and its subsidiaries, on standard commercial terms. During 2010 the purchases from and sales to Munster Cattle Breeding Group Limited amounted to €60,000 (2009: €73,000) and €378,000 (2009: €393,000) respectively. The net trading balance outstanding to the Society amounted to €58,000 (2009: €25,000) at the year end. On the establishment of this venture, the Society provided a loan of €1,320,000 to its non-wholly owned subsidiary, which was still in place at the year end.

In the ordinary course of business, some key management and directors, in their capacity as farmers and or directors of other related companies, trade with the Society on standard commercial terms. The aggregate level of purchases from and sales to these individuals during the year amounted to €1,092,000 (2009: €912,000) and €552,000 (2009: €467,000) respectively. The net trading balances outstanding to the Society at the year end were €6,000 (2009: €40,000). No specific reserve has been required in 2010 (2009: nil) for bad or doubtful debts in respect of amounts owed by key management or directors and companies controlled by them.

Reox Holdings plc

In 2006, Dairygold Co-Operative Society Limited (Dairygold) and Reox Holdings plc (Reox) entered into a number of arms length commercial arrangements as part of the de-merger of Reox. All agreements are based on an open and transparent basis and reflect the agreed actual cost of providing the services to both parties. These are summarised below:

- i) There is a Redeemable Interest Bearing Bond in place between Dairygold and Reox and subsidiaries in the sum of €33 million. The interest rate attaching to this bond and the terms of repayment are outlined in Note 10 to these financial statements.

Notes to financial statements

31 Related party transactions (continued)

- ii) A number of the sites which are owned by Reox have a license agreement in place and will be used by Dairygold until an acceptable replacement site is provided for use by Dairygold.
- iii) Lease Agreements. A number of sites which are owned by Reox are leased by Dairygold on a commercial arms length basis.

In addition to the €33 million in (i) above there is €12 million owed by Reox to Dairygold at the year end, relating primarily to property commitments, brand settlement, and RIBB Interest. In addition to these amounts, due to Dairygold from Reox, Dairygold has received an indemnity from Reox in relation to obligations and liabilities which may arise on the Society. Dairygold decided on reviewing its overall investment in Reox to maintain the provision of €6 million (2009: €6 million) which is due to uncertainty around the timing of the recoverability of amounts due from Reox.

During the year the Society signed Heads of Terms agreement with Reox regarding the acquisition of Watfore Limited, a property company with a portfolio of 17 properties, for a consideration of €43 million. These properties are of strategic importance to the Society and include Mallow North and Mallow South and properties associated with a number of Retail Stores. The €43 million payable to Reox Holdings plc, will consist of €17 million paid in cash and €26 million offset against other amounts due by Reox Holdings plc to the Society. The total amount outstanding from Reox Holdings plc to the Society post the transaction will be €19 million. As part of this transaction, the RIBB will be cancelled and a new subordinated unsecured €19 million loan note will be created. This loan is to be repaid as follows: €3 million each year for 5 years commencing in December 2012 and €4 million to be repaid in December 2017. These financial statements have been prepared on the basis of this transaction completing.

32 Contingent liabilities

Sales to the Irish Dairy Board are based on "on account" prices and are subject to adjustment when the prices are finally agreed. Provision is made as and when required for future deficits in the product categories.

The Society has guaranteed the liabilities (as defined in Section 5 (c) (iii) of the Companies (Amendment) Act, 1986) for the financial year ended 31 December 2010 of its Irish subsidiaries and as a result they are exempted from filing their individual accounts under the provisions of Section 17 of the Companies (Amendment) Act, 1986.

Grants of €8,356,000 (2009: €8,338,000) which have been received under agreements between the Society, its subsidiaries, Enterprise Ireland and the European Agricultural Guidance and Guarantee Fund may become repayable should certain circumstances set out in the agreements occur.

33 Securities and Guarantees

The Society has entered into bank guarantees on behalf its subsidiaries. The amounts guaranteed at the balance sheet date were €79,047,000 (2009: €90,500,000) and they are secured by fixed and floating charges on the assets of the Society and its subsidiaries.

The invoice discounting liabilities disclosed under creditors falling due within one year are secured by certain trade debtors of the Society:

	2010	2009
	€'000	€'000
Invoice discounting	12,047	-

34 Restatement of Comparatives

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

35 Post balance sheet events

No significant post balance sheet events have occurred that require reporting in the financial statements.

Notes to financial statements

36 Principal operating subsidiaries and associates

Subsidiaries	Country of Incorporation	% Holding	Activity
Agricola Properties Limited	Ireland	100.0%	Property Management
Dairygold Agri Business Limited	Ireland	100.0%	Procuring, distribution and retailing of agri and non agri supplies, agri feeds and farm inputs
Dairygold Deutschland Handelsgesellschaft mbH	Germany	100.0%	Sales & distribution
Dairygold Finance Limited	Ireland	100.0%	Finance company
Dairygold Food Ingredients Limited	Ireland	100.0%	Dairy products
Dairygold Food Ingredients (U.K.) Limited	U.K.	100.0%	Dairy products
Dairygold Food Ingredients (France) SAS.	France	100.0%	Dairy products
Dan Dairies (U.K.) Limited	U.K.	100.0%	Dairy products
Munster Cattle Breeding Group Limited	Ireland	66.0%	AI and Farm services

Associates	Country of Incorporation	% Holding	Activity
Co-Operative Animal Health Limited *	Ireland	50.0%	Farm services
National Cattle Breeding Centre Limited	Ireland	20.0%	AI services
Reox Holdings plc	Ireland	26.1%	Holding company
The Malting Company of Ireland Limited	Ireland	33.3%	Malting

* This entity is treated as an associate due to the voting rights attached to the Society's capital holdings therein.

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

37 Approval of financial statements

The financial statements were approved by the Board of Directors on 6 April 2011.

Five year historical information

Five year profit and loss account

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
TURNOVER	693,559	555,175	688,127	625,100	543,037
Core activities	18,926	11,772	(559)	15,514	240
Share trading	7,310	1,687	2,826	5,947	-
OPERATING PROFIT	26,236	13,459	2,267	21,461	240
Share of associates	(7,514)	(1,044)	(1,857)	(3,423)	11,279
Exceptional costs	(18)	(1,019)	-	(4,485)	(4,524)
Profit arising from disposal of fixed assets	-	-	58	85	424
Net interest (payable)/ receivable	(419)	(950)	842	2,334	1,435
PROFIT/(LOSS) before taxation	18,285	10,446	1,310	15,972	8,854
Taxation	(1,177)	(875)	(1,998)	(3,618)	(3,200)
PROFIT/(LOSS) after taxation	17,108	9,571	(688)	12,354	5,654
Minority interest	(352)	(258)	(149)	-	-
PROFIT/(LOSS) for the financial year	16,756	9,313	(837)	12,354	5,654
Share interest	(1,233)	(1,238)	(2,370)	(2,294)	(3,716)
RETAINED PROFIT/(LOSS)	15,523	8,075	(3,207)	10,060	1,938

Five year balance sheet

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Net Assets Employed:					
Fixed assets	192,718	209,039	207,430	209,450	194,456
Stock	86,853	73,086	85,419	89,303	72,655
Debtors	105,801	98,963	96,415	90,384	71,235
Current cash & bank balances	(17,175)	(10,467)	2,296	(8,344)	(4,975)
Creditors	(91,350)	(85,129)	(109,125)	(126,056)	(82,459)
Medium/long term creditors	(46,615)	(68,116)	(71,423)	(30,246)	(37,429)
Capital grants	(5,492)	(6,311)	(6,301)	(1,265)	(1,475)
Deferred taxation liability	(364)	(441)	(1,754)	(823)	(424)
Pension asset	16,913	10,100	2,671	26,238	23,063
NET ASSETS	241,289	220,724	205,628	248,641	234,647
Financed by:					
Shareholders' funds	240,303	220,090	205,252	248,641	234,647
Minority interest	986	634	376	-	-
CAPITAL EMPLOYED	241,289	220,724	205,628	248,641	234,647

