



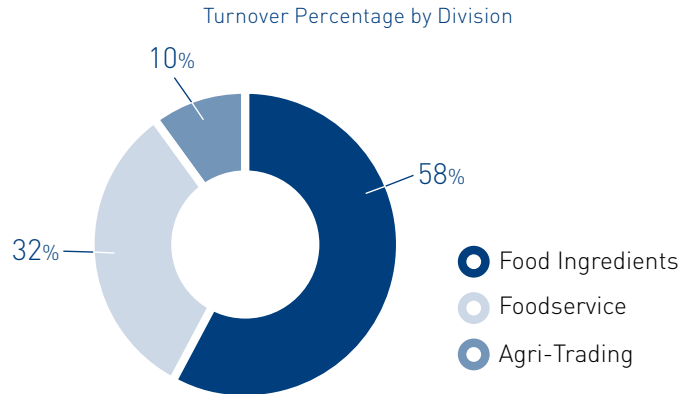
Annual Report and
Financial Statements
2010

2010 Summary

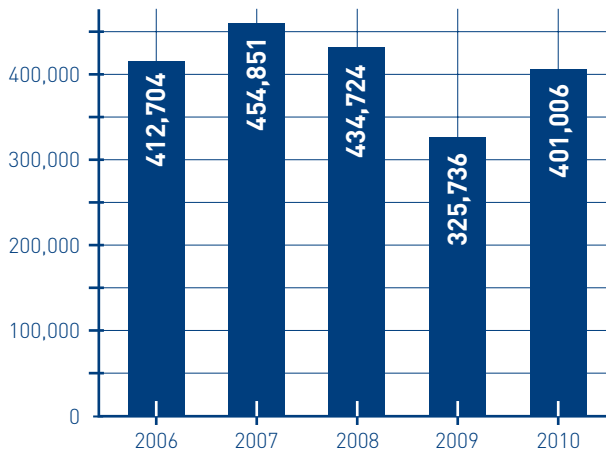
Lakeland Dairies is a global market leader working in over 70 countries and offering some 170 branded dairy products to our valued customers throughout the world.

Internationally there was a return to growth in our key markets as the global recession slowed. This continuing and gradual recovery has helped to sustain a rise in demand for dairy products globally, keeping market prices at favourable levels.

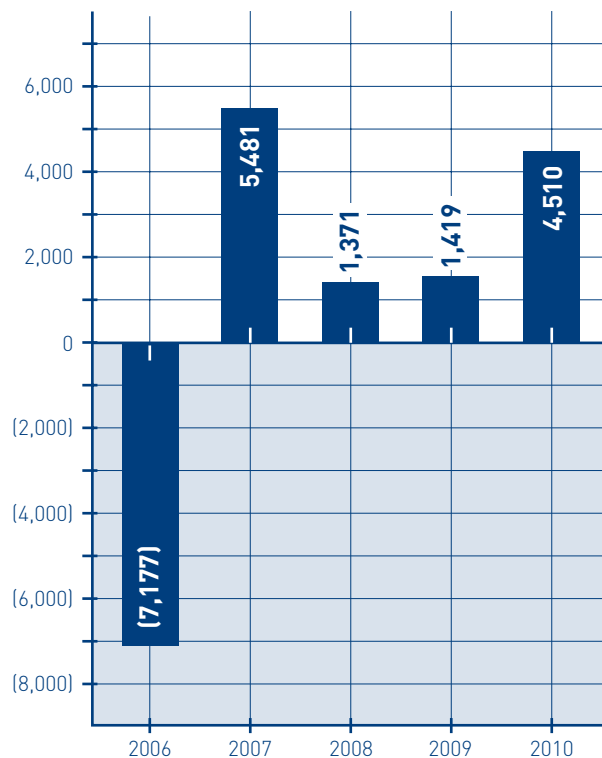
- Turnover rises 23% to €401 million
- Profit before tax €4.5 million
- Increased global demand for food ingredients
- Opened new €20 million Drying Plant at Bailieboro
- Launched flavoured milk product in UK
- All operations performed strongly



Turnover €'000s

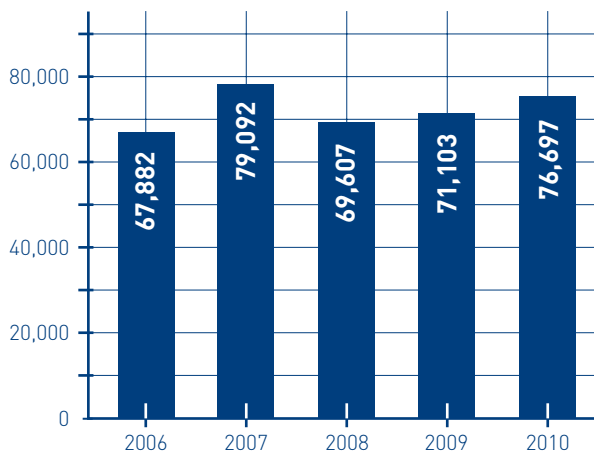


Operating Profit/(Loss) €'000s *



* Before exceptional items and after interest charges

Shareholders' Funds €'000s



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Pádraig Young
Chairman

Chairman's Review

On all fronts, 2010 was among the most challenging years that Ireland has faced.

While the rate of contraction in Ireland's economic growth slowed from 2009 into 2010, the fallout from the record budgetary deficit, the cost of the bank bailout and the EU/IMF deal has cast a long shadow over the country, challenging all and significantly increasing hardship for many.

In the face of these unprecedented times, Ireland's dairy sector, with exports worth over €2 billion annually, has provided an important source of hope for the Irish economy, sustaining a considerable number of incomes, jobs and families.

While the medium term outlook for the wider Irish economy will remain very challenging, the prospects for the global economy are considerably brighter.

For Lakeland Dairies, the expectation that the growth in global demand for dairy products is set to continue is welcome news. Continued global population growth and increases in disposable income should help to sustain an annual growth in demand for dairy products of over 2.5% over the next decade.

This offers the Irish dairy sector a substantial opportunity. In the shorter term, it should help support continued favourable milk prices. In the longer term, it will underpin the considerable efforts that are already underway to ramp up milk production.

This is particularly the case as we come closer to the removal of quotas in 2015. However, as production increases over the next four years, careful management will be required to ensure producers are not hit with a potentially serious superlevy fine from the EU.

2010 saw the publication of the *Food Harvest 2020* document and more recently the follow-on Dairy Sector Roadmap. These valuable policy documents set out the structural and operational measures required to take advantage of the opportunity to significantly increase milk production. Dairy farming is marked out to do much of the heavy lifting in increasing total agricultural output by 33% and exports by 42%.

If our sector is to ramp up milk production over the coming decade to achieve the target of a 50% increase by 2020, then significant changes need to be tackled with a common sense of purpose and a shared sense of urgency.

These include developing business, financing and processing plans, identifying new markets and new products, and increasing on-farm efficiencies and investment.

Lakeland Dairies is involved with the strategy's development at both a national level and regional level, ensuring at all times that members' interests are clearly heard and accommodated.

In light of these ambitious targets set out in the 2020 policy document, I was encouraged during the year to read the results of the survey of Lakeland Dairies members which showed that 92% of members said they will be staying in milk production and expanding output.

With an eye on the very real opportunities for future expansion, 25% of Lakeland Dairies suppliers also responded that they will invest in new milking machines and storage tanks in the medium term.

These are both very encouraging signs from members that the opportunities available to our sector will be maximised.

I want to welcome Lakeland Dairies' two new board members Seamus Brennan and Aloysius Duffy, who will represent Carrickmacross West and Ballybay South respectively. I warmly acknowledge the dedication and commitment of John Morris and Seamus Traynor who retired from the Board during the year.

I also want to recognise the commitment and dedication shown by all Lakeland Dairies Board and Regional Committee Members, Shareholders, Management and Staff during 2010. I also want to acknowledge the continued strong leadership of Michael Hanley.

Without their collective hard work and endeavour Lakeland Dairies would not continue to prosper and would not be as well placed as it is to serve the needs of its suppliers, members and Irish and international customers.

Pádraig Young
Chairman



Michael G. Hanley
Chief Executive

Chief Executive's Review

2010 has been a broadly positive year for Lakeland Dairies. Internationally, there was a return to growth in our key markets as the global recession slowed.

This continuing and welcome gradual recovery has helped to sustain a rise in demand for dairy products globally, raising market prices to improved levels.

Based on the organisational initiatives we have undertaken to date, our business was well positioned to take advantage of these trends throughout the year. Our strategic restructuring and redevelopment plans of recent years are delivering tangible productivity and efficiency gains which are of ongoing benefit to all our milk producers.

We processed over 700 million litres of milk into a wide range of value-added dairy foodservice and food ingredient products. We are making continuous progress through focussed business development activity, forward planning and prudent management across every aspect of our operations.

Turnover grew in the past year by 23% to €401 million, yielding an operating profit of €4.5 million which is a satisfactory outcome. The balance sheet remains strong with shareholders' funds of €76.7 million at year-end.

Foodservice Division

Foodservice operations performed strongly with turnover of €130 million accounting for 32% of Lakeland Dairies' total revenues.

We built further on the progress of recent years with new product developments and the targeting of new market opportunities. The division benefited both from organic business growth and incoming new business. The initial launch of our newly developed Modern Milk flavoured product range, into specific segments of the UK market, has proven successful in its first phase and will continue to be progressed in the current year following an encouraging response from consumers.

Our overall approach in Foodservice is guided by continuous market research into evolving consumer trends. With a relentless focus on quality, convenience and consumer satisfaction across our entire foodservice product range, we have become a global market leader working today in over 70 countries and offering some 170 branded products to our valued customers around the world.

Food Ingredients Division

Food ingredients revenues of €232 million increased by 31% on the prior year. There was increased global demand buoyed up by developing markets such as Russia, China, India and the Middle East, leading to higher prices and enhanced revenue streams. Intervention stocks were sold at close to market prices which also had a stabilising effect on market conditions.

The opening of a new €20 million technologically advanced milk powder plant in Bailieboro was a milestone occasion for everyone associated with Lakeland Dairies.

We consolidated production from the now closed Lough Egish drying plant to Bailieboro. Using the most modern processing facilities, the new plant is capable of producing 70,000 tonnes of high quality milk powders a year, while adjoining facilities can also produce 25,000 tonnes of butter annually on the same site.

Overall this development is yielding reduced processing costs and better economies of scale for the entire business. It has placed us at the forefront of the international dairy industry as one of the most efficient and cost effective providers of high quality powders and the largest non-whey milk powder producer in Europe. Given global food trends and the proposed growth in Ireland's dairy output, this is a strategically important facility which will serve the processing needs of all our milk producers long into the future.

In the years ahead, we will continue to work in close partnership with our customers to deliver perfectly formulated milk powders and dairy ingredients that match their specific food manufacturing requirements across multiple product categories. We will also continue to pursue every possible efficiency to ensure that we yield maximum value from the markets for every litre of milk processed in our facilities.

Agri-Trading Division

The Agri-Trading Division reported turnover of €39 million for the year producing over 150,000 tonnes of high quality ruminant feeds from its feed mills and supplying a range of farm inputs to customers throughout our catchment area. The division continued its focus on providing scientifically based nutritional advice and information designed to optimise herd performance, fertility and output. Overall feed demand was good throughout the year and strengthened further as milk prices increased. As all commodity prices improved during the year, raw material prices also increased leading to higher feed prices in the final quarter. Lakeland Dairies made every effort to support producers with competitive pricing across our entire agribusiness product range.

Outlook

Our annual results reflect the necessary balance that must exist between Lakeland Dairies policy of paying a competitive and market related milk price while also ensuring that the business has sufficient funds to invest in future growth and development. This is an important requirement given the future expansion prospects for the Irish dairy industry.

While the Irish dairy industry is highly dependent on global market circumstances, prospects for world dairy markets look reasonably good for the current year and we as an exporter will benefit from this.

European markets have recovered and there is strong demand for dairy products in developing markets particularly Asia. These factors will tend to support dairy market prices for the medium term.

It is important to note that there continues to be a risk of milk price swings such as those experienced in recent years. Increases in oil prices may well push up our operating costs in terms of transport and energy. This will also impact on farm costs, particularly where fertilisers and fuel are concerned. The pending release of intervention powder stocks in Europe may have a softening effect on world dairy product prices and sterling and dollar currency exchange rates will also influence our returns from the markets.

Europe continues to work towards CAP reform, quota abolition, and a reduction in subsidies. Current international trade negotiations are also geared towards the further removal of barriers to trade and this will ultimately create more competition for Irish dairy exporters in the years ahead.

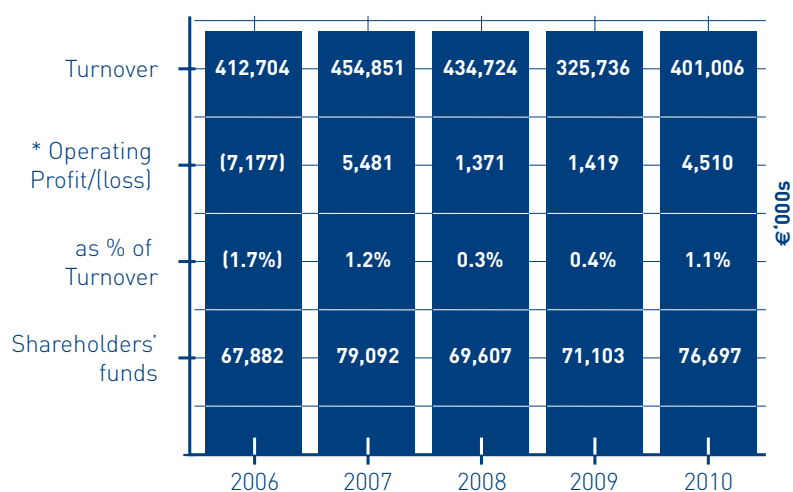
You may be confident in the fitness and health of your business and in its ability to compete successfully in the years ahead. All costs are being tightly managed and we are strongly focussed on quality, efficiency and reliability in meeting the needs of our customers worldwide. Through our ongoing research and development activities, we will continue to target the UK, European and international markets for new business development opportunities. We will rigorously ensure that these operational efficiencies are maintained for the long term benefit of the business.

I extend my warm appreciation to the Chairman, Board, Committees, Shareholders, Milk Suppliers and all Customers for their continued support. I also want to thank my management team and all staff for their support over the past year.

Given the success that our business has achieved when rising to meet the challenges of recent years, we should look forward with self-belief towards the future. Our high quality milk pool, our enhanced processing capability, the skills of our people and our capacity to deliver world class dairy products have placed us in a strong position to take full advantage of all future opportunities.

Michael G. Hanley
Chief Executive

Five year review



* Before exceptional items and after interest charges



Board of Directors and Other Information

Board of Directors



1. Pádraig Young*
(Chairman)

2. Cavan D. Johnston*
(Vice-Chairman)

3. Michael G. Hanley
(Chief Executive)

4. Seamus Brennan
(appointed 28 October 2010)

5. Seán Denning

6. Patrick Dowd

7. Aloysius Duffy
(appointed 28 October 2010)

8. John Farrell

*Members of Audit Sub Committee

Management Executives & Operational Divisions

Chief Executive

Michael G. Hanley

Financial Controller

Michael Ryan

Food Ingredients

Kieran Lonergan
General Manager

Foodservice

Dermot Farrell
General Manager

Agri-Trading

Pat Shiels
General Manager

Human Resources

Tommy Duffy
General Manager



- 9. Seán M. Finnegan
- 10. Seán Glennon
- 11. James Kane
- 12. Gerard Melia

- 13. Harry O'Neill*
- 14. Peter Quinn*
- 15. Thomas Rogers*
- 16. John Taylor

Seamus Traynor
(retired 28 October 2010)
 John Morris
(retired 28 October 2010)

Other information

Company Secretary

Gerald McCarthy

Principal Bankers

AIB Bank
 Bank of Ireland
 Ulster Bank
 Rabobank Ireland

Auditor

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

Registered Office

Killeshandra
 Co. Cavan, Ireland



Statement of Directors' Responsibilities

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

The Industrial and Provident Societies Acts, 1893 to 1978, require the Directors to prepare the Society's financial statements for each financial year. Under that legislation, the Directors have elected to prepare the Society's consolidated financial statements ("the financial statements") in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Society's financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts, 1893 to 1978. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing the Annual Report and ensuring that it complies with the requirements of the Industrial and Provident Societies Acts, 1893 to 1978.

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

On behalf of the Board of Directors

Pádraig Young, Chairman

Cavan Johnston, Vice-Chairman

Independent Auditor's Report

To the members of Lakeland Dairies Co-operative Society Limited

We have audited the Lakeland Dairies Co-operative Society Limited ("the Society") consolidated financial statements ("the financial statements") for the year ended 1 January 2011 which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, consolidated balance sheet, consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body. Our audit work has been undertaken so that we might state to the Society's members as a body 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 the Directors and auditor

The directors are responsible for preparing the Annual Report and the Society's financial statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), as set out in the Statement of Directors' Responsibilities on page 10.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1893 to 1978. We also report to you whether, in our opinion, proper books of account have been kept by the Society and whether the information given in the Annual Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements.

This other information comprises the Chairman's Review and the Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of affairs of the Society as at 1 January 2011 and of the Society's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1893 to 1978.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Society.

KPMG
Chartered Accountants
Registered Auditor
Dublin

11 March 2011

Consolidated Profit and Loss Account

For the year ended 1 January 2011

	Notes	2010 €'000	2009 €'000
Turnover			
Society & share of joint venture		411,401	335,979
Less share of joint venture turnover		(10,395)	(10,243)
Society turnover – continuing operations	2	401,006	325,736
Net operating costs	3	(395,694)	(323,181)
Operating profit – continuing operations		5,312	2,555
Share of operating profit in joint venture	4	59	95
Profit on ordinary activities before interest and taxation		5,371	2,650
Net interest payable and similar charges	5	(861)	(1,231)
Profit on ordinary activities before taxation		4,510	1,419
Tax on profit on ordinary activities	7	(570)	(167)
Profit for the year		3,940	1,252

Consolidated Statement of Total Recognised Gains & Losses

For the year ended 1 January 2011

	Notes	2010 €'000	2009 €'000
Profit for the year		3,940	1,252
Currency translation adjustments		404	537
Actuarial gain/(loss) on post employment schemes	23	1,390	(1,027)
Related deferred tax movement		4	849
Total recognised gains and losses for the year		5,738	1,611

Pádraig Young
Chairman

Cavan Johnston
Vice-Chairman

11 March 2011

Consolidated Balance Sheet

As at 1 January 2011

	Notes	2010 €'000	2009 €'000
Fixed assets			
Goodwill	9	18,770	20,376
Tangible assets	10	50,141	52,730
Financial assets			
<i>Joint venture</i>			
Goodwill in joint venture		508	508
Share of gross assets		5,399	4,773
Share of gross liabilities		(3,758)	(3,311)
	11	2,149	1,970
<i>Other financial assets</i>	11	3,154	3,154
		74,214	78,230
Current assets			
Stocks	12	35,684	24,530
Debtors	13	77,915	74,299
Cash at bank and in hand		129	42
		113,728	98,871
Creditors: amounts falling due within one year	14	(82,699)	(69,422)
Net current assets		31,029	29,449
Total assets less current liabilities		105,243	107,679
Creditors: amounts falling due after one year	15	(2,777)	(4,256)
Provisions for liabilities	16	(2,590)	(7,121)
Capital grants	17	(8,772)	(8,869)
Net assets excluding pension liability		91,104	87,433
Pension liability	23	(14,407)	(16,330)
Net assets		76,697	71,103
Capital and reserves			
Ordinary share capital	18	6,451	6,531
Revenue reserves	20	70,246	64,572
Shareholders' funds	21	76,697	71,103

Pádraig Young

Chairman

11 March 2011

Cavan Johnston

Vice-Chairman

Consolidated Cash Flow Statement

For the year ended 1 January 2011

	Notes	2010 €'000	2009 €'000
Net cash (outflow)/inflow from operating activities	25(a)	(1,960)	15,482
Dividends from joint ventures		-	19
Restructuring costs paid	25(b)	(3,973)	(373)
Returns on investments and servicing of finance	25(c)	(702)	(919)
Tax paid		(92)	(118)
Capital expenditure and financial investment	25(d)	(2,266)	(14,445)
Dividends paid		(64)	(64)
Net cash outflow before financing		(9,057)	(418)
Financing	25(e)	9,144	(1,313)
Increase/(decrease) in cash	26(b)	87	(1,731)

Notes to the Financial Statements

1. Accounting policies

The principal accounting policies of the Society, which are outlined below, have been applied consistently throughout the current year and prior year.

(a) Basis of preparation

The consolidated financial statements ("the financial statements") are prepared in accordance with Generally Accepted Accounting Practice in Ireland ("Irish GAAP") under the historical cost convention and comply with financial reporting standards applicable in the Republic of Ireland as promulgated by the Institute of Chartered Accountants in Ireland.

These financial statements are prepared for the 52 week period ending on 1 January 2011, while comparatives are for the calendar year ended 31 December 2009. The consolidated balance sheets for 2010 and 2009 have been drawn up as at 1 January 2011 and 31 December 2009 respectively.

(b) Basis of consolidation

The financial statements incorporate the results and financial position of the Society, its subsidiaries and joint venture prepared to the balance sheet date. Upon the acquisition of a business, fair values are attributed to identifiable net assets acquired. Goodwill arising on acquisitions is dealt with as set out in (h) below.

(c) Turnover

Turnover comprises the fair value of goods and services delivered to third parties, exclusive of trade discounts and value added tax. Goods are deemed to have been delivered when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in these benefits. Turnover includes the value of selling aids and supports received under EU regulations.

(d) Tangible assets

Tangible fixed assets are stated at cost, less depreciation and impairment.

Freehold land and assets under construction are not depreciated. Depreciation is charged so as to write off the cost of other tangible fixed assets over their estimated useful lives as follows:

Buildings	10 to 20 years
Plant and machinery	3 to 10 years
Motor vehicles	4 to 5 years

Costs in relation to assets in development and assets under construction are capitalised, where in the opinion of the Directors, the related project will be successfully developed and the economic benefits arising from future operations will at least equal the amount of capitalised expenditure incurred to date. Costs capitalised to assets under construction relate to costs incurred in bringing a project to the current stage. Costs associated with reaching the current stage include planning application costs and environmental impact studies. Depreciation commences when the asset is substantially complete and ready for its intended use. Full provision is made for any impairment in the value of the asset.

(e) Financial assets

Financial fixed assets are shown at cost less provisions for impairment.

(f) Joint ventures

Joint ventures are accounted for using the gross equity method. The Society's share of the profits less losses of joint ventures is included in the Consolidated Profit and Loss Account. The Society's interest in their net assets or liabilities is included as financial assets in the Consolidated Balance Sheet at an amount representing the Society's share of the fair values of the net assets at acquisition plus the Society's share of post acquisition retained profits and losses. Goodwill arising on acquisition of joint ventures is dealt with as stated at (h) below.

The amounts included in the financial statements in respect of the post acquisition profits of joint ventures are taken from their latest financial statements made up to the balance sheet date.

Notes to the Financial Statements

1. Accounting policies (continued)

(g) Leased assets

Tangible fixed assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Society are capitalised and depreciated over the lesser of the estimated useful life or the period of the lease. 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.

Assets subject to sale and leaseback transactions are retained on the Society's Balance Sheet and the proceeds of the sale are included in deferred income within creditors where this reflects the substance of the agreements in accordance with FRS 5 *Reporting the substance of transactions*.

(h) Goodwill

Purchased goodwill arising on the acquisition of a business represents the excess of the acquisition cost over the fair value of the identifiable net assets when they were acquired. Any excess of the aggregate of the fair value of the identifiable net assets acquired over the fair value of the acquisition cost is negative goodwill.

Purchased goodwill arising on acquisitions prior to 1 January 1999 was eliminated against reserves on acquisition and negative goodwill arising on such acquisitions was credited directly to reserves as a matter of accounting policy. On the disposal of a business, any goodwill so treated is included in determining the profit or loss on sale of the business.

Purchased goodwill arising on acquisitions after 1 January 1999 is capitalised in the Balance Sheet and written off on a straight line basis over its useful economic life, subject to a maximum of 20 years.

Goodwill arising on the acquisition of subsidiaries is shown separately in the Balance Sheet. Goodwill arising on the acquisition of joint ventures is included in the carrying amount of the investment and is amortised over the estimated economic life of the goodwill, subject to a maximum of 20 years.

(i) Stocks

Stocks are valued at the lower of cost and net realisable value. In the case of work-in-progress and finished goods, cost comprises of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal production levels.

Net realisable value represents the estimated selling price less all further costs to completion and all related costs to be incurred in marketing, selling and distribution.

(j) 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.

(k) Capital grants

Capital grants received and receivable are credited to the capital grants account. Annual transfers to income are made from that account to amortise such grants on the same basis as the related assets are depreciated.

(l) Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Society's taxable profits at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Society's taxable profits and its results as stated in the financial statements. These differences arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the Financial Statements

1. Accounting policies *(continued)*

(m) Foreign currencies

The accounts are expressed in euro (€). Transactions denominated in foreign currencies during the year have been translated at the rate of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated to euro at the rates of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the Profit and Loss Account.

The Society's net investment in overseas joint ventures and subsidiaries is translated at the rate ruling at the balance sheet date. The profits and losses of overseas joint ventures and subsidiaries are translated at the average rates for the year. Exchange differences resulting from the translation of the opening Balance Sheets of overseas joint ventures and subsidiaries at closing rates together with the differences on the translation of the Profit and Loss Account are dealt with through reserves and reflected in the Statement of Total Recognised Gains and Losses.

(n) Defeasance of borrowings

Where a defeasance arrangement is entered into in relation to borrowings, the gain or loss arising on the defeasance of the borrowings is recognised as it is realised by applying the effective interest rate method.

(o) Dividends

Dividends are recognised in the period in which they are approved by the Society's shareholders, or in the case of an interim dividend, when it has been approved by the Board of Directors and paid.

(p) Preference share capital

Issued preference share capital that is deemed to represent a contractual obligation to deliver cash or another asset to another entity is treated as a financial liability and, accordingly, is included in either Creditors: amounts falling due within one year or Creditors: amounts falling due after one year.

(q) Pension costs

The Society makes pension contributions for a substantial number of employees.

In relation to the Society's defined contribution schemes, contributions are accrued and recognised in operating profit or loss in the period in which they are earned by the relevant employees.

For the Society's defined benefit schemes, the difference between the market value of the schemes' assets and the actuarially assessed present value of the schemes' liabilities, calculated using the projected unit credit method, is disclosed as an asset/liability in the Balance Sheet, net of deferred tax as appropriate. The amount charged to operating profit is the actuarially determined cost of pension benefits promised to employees and earned during the year net of any improvement changes granted to members during the year.

The expected return on the pension schemes' assets during the year and the increase in the schemes' liabilities due to the unwinding of the discount during the year are shown as financing costs in the Profit and Loss Account. Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the Statement of Total Recognised Gains and Losses.

(r) Financial instruments

The Society enters into transactions in the normal course of business using financial instruments in order to hedge its exposure to exchange rate variations. These transactions are accounted for in a manner consistent with the accounting for the underlying transaction being hedged.

(s) Bank factored debtors and stock

Factored debt in which full recourse lies with the lender is recognised as a liability and included in Creditors: amounts falling due within one year while the related receivables and stock balances continue to be reported separately in trade debtors and stock until the related account balances are collected.

Notes to the Financial Statements

2. Society turnover – continuing operations

The amount of Society turnover by market supplied is as follows:

	2010 €'000	2009 €'000
Food Ingredients	231,894	177,650
Foodservice	129,932	114,133
Agri-Trading	39,180	33,953
	401,006	325,736

Segmental disclosure of turnover by source and by geographical region and profit before taxation and net assets by geographical area and by class of business are not provided, as in the opinion of the Directors, such information would be prejudicial to the interests of the Society.

Convertible Loan Stock has been allocated by the Irish Dairy Board to the Society. The Loan Stock is convertible into cash at the discretion of the Irish Dairy Board over a six year period which starts five years from the date of issue. This discretion has been exercised since 1988. Based on this discretion and on grounds of prudence, the Loan Stock is being recognised as and when receivable in cash. The allocation of Convertible Loan Stock to the Society and the benefit received is based on the level of trading with the Irish Dairy Board. Income of €861,000 in respect of this Loan Stock has been included in turnover for the 2010 financial year (2009: €652,000). The total income earned but not yet recognised at 1 January 2011 amounts to €2,809,000 (2009: €3,441,000), stated on a net present value basis. Such income will be recognised as and when receivable.

3. Net operating costs

	2010 €'000	2009 €'000
Staff costs (Note 6)	25,859	29,173
Other external charges	361,464	286,514
Auditor's remuneration	140	156
Depreciation	6,198	5,843
Impairment	975	-
Amortisation of capital grants	(537)	(79)
Amortisation of goodwill	1,606	1,606
Profit on disposal of tangible assets	(11)	(32)
	395,694	323,181

4. Share of operating profit in joint venture

	2010 €'000	2009 €'000
Share of operating profit	104	140
Amortisation of goodwill	(45)	(45)
	59	95

Notes to the Financial Statements

5. Net interest payable and similar charges

	2010 €'000	2009 €'000
Interest expense arising on bank loans and overdrafts repayable within five years	754	976
Finance lease interest	1	2
Bank interest receivable	(12)	(24)
	743	954
Defeasance gain (Note 10)	(538)	(666)
Expected return on pension scheme assets (Note 23)	(2,896)	(2,293)
Interest on pension scheme liabilities (Note 23)	3,552	3,236
	861	1,231

Interest expense includes the Society's share of the interest expense of the joint venture of €41,000 (2009: €34,000).

6. Employee costs

The total remuneration of the employees was as follows:

	2010 €'000	2009 €'000
Wages and salaries	21,543	24,647
Social welfare costs	2,450	2,578
Pension costs:		
Current service costs: defined benefit schemes (Note 23)	403	1,255
Past service costs: defined benefit schemes (Note 23)	625	-
Net curtailment/settlement gain: defined benefit schemes (Note 23)	(311)	(350)
Other pension costs: defined contribution and similar schemes	1,149	1,043
Amount charged to Profit and Loss Account	25,859	29,173

The average number of employees during the year were as follows:

	2010	2009
Foodservice	341	346
Food Ingredients	160	191
Agri-Trading	62	63
	563	600

In addition to the employee costs above, an amount of €1,390,000 relating to the actuarial gain on post employment schemes has been recorded in the Consolidated Statement of Total Recognised Gains and Losses (2009 - actuarial loss of €1,027,000).

Notes to the Financial Statements

7. Tax on profit on ordinary activities

	2010 €'000	2009 €'000
Current tax		
Irish corporation tax on profit for the year	619	293
Foreign corporation tax on profit for the year	6	-
Adjustment to tax charge in respect of previous periods	(139)	(40)
Total current tax	486	253
Deferred tax charge/(credit) (Note 16)	26	(98)
Deferred tax on post employment schemes	58	12
Total deferred tax charge/(credit)	84	(86)
Total tax on profit on ordinary activities	570	167

The difference between the total current taxation shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	2010 €'000	2009 €'000
Profit on ordinary activities before tax	4,510	1,419
Tax on Society profit on ordinary activities at standard corporation tax rate of 12.5% (2009: 12.5%)	564	177
Effects of:		
Income taxable/(not taxable)	198	(214)
Research and Development tax credit	(90)	-
Depreciation in excess of capital allowances	295	340
Income taxed at different rate	(246)	(7)
Grant amortisation	(73)	-
Utilisation of overseas losses forward	(23)	(23)
Utilisation of capital losses forward	-	(41)
Tax loss forward	-	61
Adjustments to tax charge in respect of previous periods	(139)	(40)
Society current tax charge for the year	486	253

Factors that may affect future tax charges

The Society's overseas earnings arise from operations in the UK and the US where the current tax rates are 28% and 34% respectively. It is anticipated that the Society's profits from the US activities will increase in the future.

Manufacturing profits in Ireland for the year were taxed at 10% due to manufacturing relief, which expired on 31 December 2010. Taxable profits arising from non-manufacturing trading income are taxable at 12.5%. Non-trading income is taxed at 25%.

The UK corporation tax rates for profits earned prior to 1 April 2011 and after 1 April 2011 will be 28% and 26% respectively.

Notes to the Financial Statements

8. Dividends – on equity shares

	2010 €'000	2009 €'000
Dividends paid	64	64

Dividends of €64,000 (2009: €64,000) were approved by the Directors in March 2010 and ratified at the subsequent Annual General Meeting.

9. Goodwill

	Total €'000
Cost	
At 1 January 2010 and at 1 January 2011	32,052
Amortisation	
At 1 January 2010	11,676
Amortisation for the year	1,606
At 1 January 2011	13,282
Net book value	
At 1 January 2011	18,770
At 31 December 2009	20,376

Goodwill is amortised over the expected useful economic life which the Directors estimate to be 20 years. The Directors have reviewed the recoverable amount of goodwill as at 1 January 2011, in the context of the Society's budgets and business plans, and in their opinion the recoverable amount of the goodwill balance is not less than the net book value and accordingly, no impairment has arisen.

Notes to the Financial Statements

10. Tangible assets

	Land & Buildings €'000	Plant & Machinery €'000	Motor Vehicles €'000	Assets Under Construction €'000	Total €'000
Cost					
At 1 January 2010	35,085	64,301	3,203	18,958	121,547
Additions	358	2,517	-	1,459	4,334
Assets fully constructed	3,418	16,999	-	(20,417)	-
Disposals	(2)	-	(6)	-	(8)
Impairment	-	(975)	-	-	(975)
Foreign exchange movement	158	286	-	-	444
At 1 January 2011	39,017	83,128	3,197	-	125,342
Depreciation					
At 1 January 2010	17,606	48,367	2,844	-	68,817
Charge for the year	1,126	4,998	74	-	6,198
Disposals	-	-	(2)	-	(2)
Foreign exchange movement	38	150	-	-	188
At 1 January 2011	18,770	53,515	2,916	-	75,201
Net book value					
1 January 2011	20,247	29,613	281	-	50,141
31 December 2009	17,479	15,934	359	18,958	52,730

Included in the above are the following amounts in respect of fixed assets which are financed by finance leases and which continue to be legally owned by the lessors:

	2010 €'000	2009 €'000
Net book value as at year end	5,419	6,993
Depreciation charge for year	1,573	2,160

Tangible fixed assets with a net book value of €3,007,000 at 1 January 2011 (2009: €3,259,000) were subject to a sale and leaseback financing arrangement in 2002 and are included in leased assets at the year end. A gain of €1,508,000 arose on the transaction and was credited to deferred income. This gain is being recognised over thirteen years as, in the opinion of the Directors, this represents the period over which the gain is realised (Note 5).

Tangible fixed assets with a net book value of €2,061,000 at 1 January 2011 (2009: €3,315,000) were subject to a sale and leaseback financing arrangement in 2006 and are included in leased assets at the year end. A gain of €4,015,000 arose on the transaction and was credited to deferred income. This gain is being recognised over eight years as, in the opinion of the Directors, this represents the period over which the gain is realised (Note 5).

During the year ended 1 January 2011 the Society reviewed assets for impairment and recognised an impairment loss of €975,000 with respect to plant and machinery.

Notes to the Financial Statements

11. Financial assets

Investment in joint venture

	2010 €'000	2009 €'000
Cost		
At 1 January 2010	1,970	2,009
Share of profits after interest and tax	63	106
Dividend received and receivable	-	(57)
Goodwill amortisation	(45)	(45)
Foreign currency movement - goodwill	45	(10)
Foreign currency movement - net assets	116	(33)
At 1 January 2011	2,149	1,970

The Society holds a 25% share interest in Socius Ingredients LLC. This business is jointly controlled by the Society and, accordingly, is accounted for as a joint venture in the consolidated financial statements of the Society.

The investment in the joint venture is comprised of goodwill of €508,000 (2009: €508,000) and the Society's share of the net assets of the joint venture of €1,641,000 (2009: €1,462,000).

Other financial assets

	2010 €'000	2009 €'000
(a) Listed investments at cost		
At start and end of year	10	10
The market value of listed investments at year end was €98,000 (2009: €98,000).		
(b) Unlisted investment at cost - One51 plc		
Equity interest - 4.7 million ordinary shares	3,144	3,144
At 1 January 2011	3,154	3,154

Notes to the Financial Statements

12. Stocks

	2010 €'000	2009 €'000
Finished goods	24,200	14,732
Raw materials	5,000	3,613
Consumables	6,484	6,185
	35,684	24,530

In the opinion of the Directors, the replacement cost of stocks does not differ materially from the amounts stated above.

13. Debtors

	2010 €'000	2009 €'000
Amounts falling due within one year		
Trade debtors	70,622	59,326
Other debtors and prepayments	4,798	8,626
Unpaid share capital	2	5
Amounts due from joint venture and related parties (a)	1,626	790
Grants receivable	-	4,696
	77,048	73,443
Amounts falling due after one year		
Other debtors (b)	867	856
	77,915	74,299

(a) Amounts due from joint venture and related parties are unsecured, interest free and repayable on demand.

(b) Other debtors include the IDB Convertible Loan Stock which falls due after one year.

Notes to the Financial Statements

14. Creditors: amounts falling due within one year

	2010 €'000	2009 €'000
Bank overdraft (a)	2,180	1,789
Bank loans (a)	750	750
Bank factored debt (a)	26,210	16,596
Finance lease obligations	20	28
Trade creditors	20,816	15,887
PAYE and PRSI	794	902
Corporation tax	590	196
Other creditors and accruals	30,733	32,813
Other creditors (Note 15(a))	260	-
Deferred income	346	461
	82,699	69,422

- (a) The Society's bank facilities comprise of a combination of bank overdraft, bank factored debt and term debt. The bank facilities are secured by fixed and floating charges over the assets of the Society and its material subsidiaries and the bank factored debt is secured over the Society's trade debtors and stock. The term loan is repayable by installments.

15. Creditors: amounts falling due after one year

	2010 €'000	2009 €'000
Bank loans fall due as follows:		
- between one to two years (Note 14(a))	373	750
- between two to five years (Note 14(a))	-	375
Finance lease obligations falling due as follows:		
- between one to two years	-	21
Deferred income	909	1,355
Other creditors (a)	1,495	1,755
	2,777	4,256

- (a) Included in other creditors are amounts received of €260,000 (2009: nil) and €1,495,000 (2009: €1,755,000) within amounts falling due within one year and amounts falling due after one year respectively, for shares issued by Lakeland Dairies Food Services Limited, a subsidiary of the Society, in connection with its promotion of a Business Expansion Scheme. These shares are subject to put and call options which are exercisable five years after the date of issue of the shares and, under the provisions of FRS 25 *Financial Instruments: Presentation*, have been treated as a financial liability.

Notes to the Financial Statements

16. Provisions for liabilities

	Deferred taxation €'000	Restructuring and other provisions €'000	Total €'000
At 1 January 2010	831	6,290	7,121
Utilised in the year	-	(4,557)	(4,557)
Charge for the year	26	-	26
At 1 January 2011	857	1,733	2,590

Deferred taxation

Deferred tax provisions represent timing differences as follows:

	2010 €'000	2009 €'000
Accelerated capital allowances	1,036	1,010
Tax losses forward	(179)	(179)
	857	831

The deferred tax asset of €179,000 (2009: €179,000) relates to taxable losses arising in a subsidiary company, L.E. Pritchitt Limited. The asset has been recognised on the basis that the Directors are of the opinion that there will be suitable taxable profits in the future to utilise this tax loss. A further deferred tax asset amounting to €364,000 (2009: €416,000) relating to specific losses forward for other subsidiaries has not been recognised, in accordance with the Society's accounting policy, as it is not certain that the amount will be recoverable.

The Society's financial statements do not recognise deferred tax liabilities in relation to retained reserves of overseas subsidiaries and joint ventures as there is no binding agreement to distribute such reserves. Since such reserves are continually reinvested by the Society, no tax is expected to be payable on them in the foreseeable future.

Restructuring and other provisions

This provision relates to the costs of the restructuring plan announced during 2006 by the Society. The provision is not discounted as it is expected that it will be substantially utilised during the coming year.

Notes to the Financial Statements

17. Capital grants

	2010 €'000
Recognised	
At 1 January 2010	13,520
Recognised during the year	421
Foreign exchange movement	14
	13,955
Amortised	
At 1 January 2010	4,651
Credited to profit and loss account	537
Foreign exchange movement	(5)
	5,183
Net book amount	
At 1 January 2011	8,772
At 31 December 2009	8,869

Under agreements with a number of grant agencies, the Society has received grants which may be revoked, cancelled or repaid in certain circumstances.

During 2009, the Society commenced construction of a new drier in Bailieboro in relation to which a capital grant of €8,667,000 was receivable from Enterprise Ireland. The full amount of the grant was received during the years ended 31 December 2009 and 1 January 2011.

18. Ordinary share capital

	2010 €'000	2009 €'000
At 1 January 2010 – 130,611,616 ordinary shares (2009: 131,630,441) of 5 cent each	6,531	6,582
Issue of nil ordinary shares (2009: 98,694) of 5 cent each	-	5
Redemption of 1,606,988 ordinary shares (2009: 1,117,519) of 5 cent each	(80)	(56)
	6,451	6,531

In common with organisations registered under the Industrial and Provident Societies Acts, 1893 to 1978, the Society does not have an authorised share capital.

Notes to the Financial Statements

19. Capital grant reserve

	2010 €'000	2009 €'000
At beginning of year	-	1,458
Released to revenue reserves (Note 20)	-	(1,458)
At end of year	-	-

The capital grant reserve was created to comply with certain conditions laid down by Enterprise Ireland. The Directors are satisfied that all conditions have been met and accordingly, released the capital reserve to revenue reserves in the prior year.

20. Revenue reserves

	2010 €'000	2009 €'000
At beginning of year	64,572	61,567
Profit for the year	3,940	1,252
Dividends paid (Note 8)	(64)	(64)
Currency translation adjustment	404	537
Actuarial gain/(loss) on post employment schemes, net of deferred tax movement	1,394	(178)
Movement on capital grant reserve (Note 19)	-	1,458
At end of year	70,246	64,572

Profits available for distribution are partially restricted by existing grant agreements. At 1 January 2011, this restriction amounted to €8,963,000 (2009: €3,794,000).

The cumulative amount of goodwill written off directly against the Society's reserves at 1 January 2011 was €1,714,000 (2009: €1,714,000).

21. Reconciliation of movement in shareholders' funds

	2010 €'000	2009 €'000
Opening shareholders' funds	71,103	69,607
Profit for the year	3,940	1,252
Dividends paid (Note 8)	(64)	(64)
Proceeds from shares issued	-	5
Shares redeemed	(80)	(56)
Currency translation adjustment	404	537
Actuarial gain/(loss) on post employment schemes, net of deferred tax movement	1,394	(178)
Closing shareholders' funds	76,697	71,103

Notes to the Financial Statements

22. Commitments

At the year end, the following capital commitments authorised by the Board have not been provided for in the financial statements:

	2010 €'000	2009 €'000
(a) Capital commitments		
Contracted for	3,037	3,500
Not contracted for	5,887	3,029
	8,924	6,529

(b) Forward contracts

The Society enters into forward foreign exchange contracts in the normal course of business to reduce transactional exposures arising from purchases or sales, predominantly in pounds sterling and US dollars. The foreign currency contracts are denominated in the same currency as the hedged item. It is the Society's policy that no trading in financial instruments is undertaken. At the year end, the Society had entered into various contracts whereby it is committed to buying sterling and selling dollars with an equivalent euro nominal value of €22,299,000 (2009: €13,556,000).

At the year end, purchase commitments on forward contracts for certain raw materials not yet provided for in the financial statements amounted to €1,583,000 (2009: €432,000).

Notes to the Financial Statements

23. Pension costs

Defined contribution

The Society operates a number of defined contribution schemes. Contributions payable in the year to the schemes amounted to €1,107,000 (2009: €1,002,000), of which €103,000 (2009: €97,000) was outstanding at the year end. In addition the Society contributes to a defined benefit scheme which is accounted for as a defined contribution scheme under the multi employer scheme provisions of FRS17 *Retirement Benefits* (FRS 17). This is due to the fact that the underlying assets and liabilities attributable to individual employers cannot be identified on a consistent and reasonable basis. The Society contributed €42,000 (2009: €41,000) to this scheme during the year.

Defined benefit

Pensions for certain staff in the Republic of Ireland are funded through two defined benefit pension schemes, one of which is referred to above, the assets of which are vested in independent trustees for the benefit of the staff and their dependants. The contributions are based on the advice of an independent professionally qualified actuary obtained at three-yearly intervals. The latest finalised actuarial valuation, for the defined benefit occupational pension scheme in the Republic of Ireland, was conducted as at 1 January 2008.

In this actuarial report the funding requirements of the scheme are set out in order to ensure that there are adequate funds available to meet the cost of benefits as they fall due and a level of contribution that needs to be paid to the scheme in the period to the next review was recommended. The Society accepted this recommendation and has arranged payment of contributions accordingly.

On 1 June 2009 some modifications were made to benefits to be accrued in respect of future service which, together with increases in contribution rates, resulted in a curtailment gain of €350,000 in the year ended 31 December 2009. In addition, the scheme was closed to new entrants effective from 1 January 2010. During 2010, there was a curtailment gain of €346,000, arising as a result of the restructuring plan announced in 2006. In addition, a further net settlement loss of €35,000 was incurred arising from modifications to the scheme.

The Society operates one closed defined benefit arrangement in the UK and the last formal actuarial review was carried out as at 1 August 2009. The actuary outlined in his report on the valuation the scheme's funding requirements and recommended a level of contributions to be paid in the period to the next review. The Society accepted this recommendation and has arranged payment of contributions accordingly. During 2010, past service costs of €625,000 were incurred in settling a historic liability for pensions in payment.

The actuarial reports are not available for public inspection but the results are advised to the members of the schemes. The actuarial reports include details of agreed contribution rates for future years.

There are no unfunded pension schemes.

The valuations of the defined benefit schemes used for the purpose of FRS 17 disclosures have been based on the most recent actuarial valuations as identified above and updated by the independent actuaries to take account of the requirements for FRS 17 in order to assess the liabilities at the balance sheet date. Scheme assets are stated at their market value at the balance sheet date.

Notes to the Financial Statements

23. Pension costs (continued)

The financial assumptions used to calculate the retirement benefit liabilities under FRS 17 were as follows:

	2010 Projected Unit	2009 Projected Unit	2008 Projected Unit
Republic of Ireland:			
Rate of increase in salaries	3.75%	3.75%	4.00%
Rate of increase of pensions in payment	1.80%	1.80%	1.80%
Rate of increase of deferred pensions	2.00%	2.00%	2.00%
Discount rate	5.60%	5.50%	5.80%
Inflation rate	2.00%	2.00%	2.25%

The increase in the discount rate from 5.5% to 5.6% per annum reflects the rising bond yields during the year.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for 20.7 years for males and 23.3 years for females.

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The overall expected long-term rate of return on assets is 6.08% (2009: 6.30%). The expected returns on each individual asset category have been determined by reference to long-term expectations and market yield as at the measurement dates.

The actual return on the assets during the year was 9.84% (2009: 17.87%).

	2010 Projected Unit	2009 Projected Unit	2008 Projected Unit
United Kingdom:			
Rate of increase of pensions in payment	3.45%	3.20%	2.70%
Rate of increase of deferred pensions	2.75%	3.60%	2.70%
Discount rate	5.45%	5.70%	6.50%
Inflation rate - RPI	3.45%	3.60%	2.70%
Inflation rate - CPI	2.75%	N/A	N/A

In line with recent changes in UK pension legislation, the CPI inflation rate now applies to deferred pensions. The benefit to the scheme in 2010 arising in respect of changing to RPI was €586,000.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 63-year old to live for 23 years for males and 26 years for females.

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The overall expected long-term rate of return on assets is 6.7% (2009: 7.2%). The expected returns on each individual asset category have been determined by reference to long-term expectations and market yield as at the measurement dates.

The actual return on the assets during the year was 9.9% (2009: 23.4%).

Notes to the Financial Statements

23. Pension costs (continued)

The market value of the assets in the pension schemes and the expected rate of return were:

Total	Rate of return 2010	Market value 2010 €'000	Rate of return 2009	Market value 2009 €'000	Rate of return 2008	Market value 2008 €'000
Equities	7.00%	34,414	7.25%-7.50%	29,749	6.70%-7.50%	23,364
Bonds	3.60%-5.45%	9,568	3.80%-5.70%	8,687	4.30%-6.50%	8,170
Other assets	2.80%-6.00%	5,550	3.00%-6.50%	4,946	2.00%-6.00%	3,301
Total market value of pension scheme assets		49,532		43,382		34,835
Present value of pension scheme liabilities		(67,706)		(63,533)		(53,378)
Deficit in the pension schemes		(18,174)		(20,151)		(18,543)
Deferred tax asset		3,767		3,821		2,985
Net pension liability		(14,407)		(16,330)		(15,558)
Republic of Ireland	Rate of return 2010	Market value 2010 €'000	Rate of return 2009	Market value 2009 €'000	Rate of return 2008	Market value 2008 €'000
Equities	7.00%	23,988	7.25%	20,717	7.50%	14,975
Bonds	3.60%	8,018	3.80%	7,201	4.30%	7,001
Other assets	2.80%-6.00%	1,684	3.00%-6.30%	1,594	3.50%-6.00%	2,231
Total market value of pension scheme assets		33,690		29,512		24,207
Present value of pension scheme liabilities		(42,205)		(41,255)		(38,448)
Deficit in the pension schemes		(8,515)		(11,743)		(14,241)
Deferred tax asset		1,064		1,468		1,780
Net pension liability		(7,451)		(10,275)		(12,461)
United Kingdom	Rate of return 2010	Market value 2010 €'000	Rate of return 2009	Market value 2009 €'000	Rate of return 2008	Market value 2008 €'000
Equities	7.00%	10,426	7.50%	9,032	6.70%	8,389
Bonds	5.45%	1,550	5.70%	1,486	6.50%	1,169
Other assets	3.95%-6.00%	3,866	4.10%-6.50%	3,352	2.00-5.70%	1,070
Total market value of pension scheme assets		15,842		13,870		10,628
Present value of pension scheme liabilities		(25,501)		(22,278)		(14,930)
Deficit in the pension schemes		(9,659)		(8,408)		(4,302)
Deferred tax asset		2,703		2,353		1,205
Net pension liability		(6,956)		(6,055)		(3,097)

Notes to the Financial Statements

23. Pension costs (continued)

The following are the amounts that have been included in the Profit and Loss Account and the Statement of Total Recognised Gains and Losses:

	ROI		UK		TOTAL	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Included in payroll costs						
Current service costs (Note 6)	(403)	(1,255)	-	-	(403)	(1,255)
Past service cost	-	-	(625)	-	(625)	-
Curtailment gain	346	350	-	-	346	350
Net settlement cost	(35)	-	-	-	(35)	-
	(92)	(905)	(625)	-	(717)	(905)
Included in net interest payable and similar charges						
Expected return on pension scheme assets (Note 5)	1,857	1,544	1,039	749	2,896	2,293
Interest on pension scheme liabilities (Note 5)	(2,228)	(2,205)	(1,324)	(1,031)	(3,552)	(3,236)
Net return included in net interest payable and similar charges	(371)	(661)	(285)	(282)	(656)	(943)
Included in Statement of Total Recognised Gains and Losses						
Difference between expected and actual return on assets	1,100	2,862	392	1,972	1,492	4,834
Experience gains and losses on scheme liabilities	(36)	1,464	-	-	(36)	1,464
Effect of changes in actuarial assumptions underlying the present value of the scheme liabilities	937	(1,398)	(1,003)	(5,927)	(66)	(7,325)
Actuarial gain/(losses) included in the Statement of Total Recognised Gains and Losses	2,001	2,928	(611)	(3,955)	1,390	(1,027)
	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000	
Present value of funded defined benefit obligations	(67,706)	(63,533)	(53,378)	(61,152)	(71,002)	
Fair value of plan assets	49,532	43,382	34,836	51,885	52,913	
Deficit in the scheme	(18,174)	(20,151)	(18,542)	(9,267)	(18,089)	
Related deferred tax asset	3,767	3,821	2,984	1,964	3,949	
Net Liability	(14,407)	(16,330)	(15,558)	(7,303)	(14,140)	

Notes to the Financial Statements

23. Pension costs (continued)

	ROI		UK		TOTAL	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Movement in present value of defined benefit obligation						
At beginning of year	(41,256)	(38,448)	(22,277)	(14,930)	(63,533)	(53,378)
Current service costs	(403)	(1,255)	-	-	(403)	(1,255)
Interest cost	(2,228)	(2,205)	(1,324)	(1,031)	(3,552)	(3,236)
Past service cost	-	-	(625)	-	(625)	-
Scheme participants contribution	(705)	(637)	-	-	(705)	(637)
Curtailment gain	346	350	-	-	346	350
Settlements	238	-	-	-	238	-
Benefits paid	901	873	520	975	1,421	1,848
Actuarial gains/(losses)	901	66	(1,003)	(5,927)	(102)	(5,861)
Foreign exchange adjustment	-	-	(791)	(1,364)	(791)	(1,364)
At end of year	(42,206)	(41,256)	(25,500)	(22,277)	(67,706)	(63,533)
Movements in fair value of plan assets						
At beginning of year	29,513	24,207	13,869	10,629	43,382	34,836
Expected return on plan assets	1,857	1,544	1,039	749	2,896	2,293
Actuarial gains	1,100	2,862	392	1,972	1,492	4,834
Contributions by employer	1,690	1,136	567	521	2,257	1,657
Contributions by members	705	637	-	-	705	637
Benefits paid	(901)	(873)	(520)	(975)	(1,421)	(1,848)
Settlements	(273)	-	-	-	(273)	-
Foreign exchange adjustment	-	-	494	973	494	973
At end of year	33,691	29,513	15,841	13,869	49,532	43,382
Movement in net deficit during the year						
Deficit in schemes at beginning of year	(11,743)	(14,241)	(8,408)	(4,301)	(20,151)	(18,542)
Current service cost	(403)	(1,255)	-	-	(403)	(1,255)
Contributions paid	1,690	1,136	567	521	2,257	1,657
Past service cost	-	-	(625)	-	(625)	-
Expected return on assets	1,857	1,544	1,039	749	2,896	2,293
Interest on liabilities	(2,228)	(2,205)	(1,324)	(1,031)	(3,552)	(3,236)
Difference between expected and actual returns	1,100	2,862	392	1,972	1,492	4,834
Experience gains on scheme liabilities	(36)	1,464	-	-	(36)	1,464
Change in financial and demographic assumptions	937	(1,398)	(1,003)	(5,927)	(66)	(7,325)
Curtailment gain	346	350	-	-	346	350
Net settlement costs	(35)	-	-	-	(35)	-
Foreign exchange adjustment	-	-	(297)	(391)	(297)	(391)
Deficit in schemes at end of year	(8,515)	(11,743)	(9,659)	(8,408)	(18,174)	(20,151)

Notes to the Financial Statements

23. Pension costs (continued)

Experience gains/(losses) are as follows:

Total	2010	2009	2008	2007	2006
Difference between the expected and actual return on schemes' assets:					
Amount (€'000)	1,493	4,834	(17,594)	(3,528)	1,825
Percentage of schemes' assets	3.01%	11.14%	(50.51%)	(6.80%)	3.45%
Experience gains/(losses) on schemes' liabilities:					
Amount (€'000)	(36)	1,464	542	3,536	(563)
Percentage of schemes' liabilities	0.05%	(2.30%)	(1.02%)	(5.78%)	0.79%
Total amount included in Statement of Total Recognised Gains and Losses:					
Amount (€'000)	1,390	(1,027)	(10,788)	8,086	1,401
Percentage of schemes' liabilities	(2.05%)	1.62%	20.21%	(13.22%)	(1.97%)

The cumulative actuarial loss before deferred tax recognised in the Statement of Total Recognised Gains and Losses is a loss of €8,568,000 (loss 2009: €9,958,000).

Republic of Ireland	2010	2009	2008	2007	2006
Difference between the expected and actual return on schemes' assets:					
Amount (€'000)	1,100	2,862	(11,694)	(2,258)	755
Percentage of schemes' assets	3.26%	9.70%	(48.31%)	(6.86%)	2.33%
Experience gains/(losses) on schemes' liabilities:					
Amount (€'000)	(36)	1,464	542	2,053	(563)
Percentage of schemes' liabilities	0.09%	(3.55%)	(1.41%)	(5.55%)	1.38%
Total amount included in Statement of Total Recognised Gains and Losses:					
Amount (€'000)	2,001	2,928	(9,749)	4,830	2,631
Percentage of schemes' liabilities	(4.74%)	(7.10%)	25.36%	(13.06%)	(6.44%)

United Kingdom	2010	2009	2008	2007	2006
Difference between the expected and actual return on schemes' assets:					
Amount (€'000)	392	1,972	(5,900)	(1,270)	1,070
Percentage of schemes' assets	2.48%	14.22%	(55.51%)	(6.70%)	5.21%
Experience gains/(losses) on schemes' liabilities:					
Amount (€'000)	-	-	-	1,483	-
Percentage of schemes' liabilities	-	-	-	(6.14%)	-
Total amount included in Statement of Total Recognised Gains and Losses:					
Amount (€'000)	(611)	(3,955)	(1,039)	3,256	(1,230)
Percentage of schemes' liabilities	2.39%	17.75%	6.96%	(13.48%)	4.08%

The expected contributions for the year ended 31 December 2011 total €1,079,000.

Notes to the Financial Statements

24. Subsidiaries & joint venture

At 1 January 2011, the Society had the following principal subsidiaries and joint venture:

Subsidiaries	Society Share (held directly)	Activity
Denothar Limited*	100%	Holding company
Lakeland Dairy Sales Limited*	100%	Sales of dairy produce
Lakeland Dairy Processing Limited*	100%	Research & Development
Lakeland Dairies (N.I.) Limited**	100%	Milk procurement
Lakeland Dairy Food Services Limited*	100%	Manufacture and supply of dairy produce
Bailie Foods (Ireland) Limited*	100%	Manufacture and supply of dairy produce
L.E. Pritchitt & Co. Limited***	100%	Manufacture and supply of dairy produce
Joint venture		
Socius Ingredients LLC (Note 11)****	25%	Manufacture and supply of dairy produce

(* Registered in the Republic of Ireland, ** Registered in Northern Ireland, *** Registered in the UK, **** Registered in the US)

All shares held are ordinary shares. The Society has given guarantees for the purposes of Section 17 of the Companies (Amendment) Act, 1986 to all wholly owned subsidiary companies registered in the Republic of Ireland.

The addresses of the Registered Offices of the subsidiaries are available from the Secretary of Lakeland Dairies Co-operative Society Limited.

All of the above companies have a year end date of 1 January 2011.

Notes to the Financial Statements

25. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash outflow from operating activities

	2010 €'000	2009 €'000
Operating profit	5,312	2,555
Profit on disposal of fixed assets	(11)	(32)
Depreciation	6,198	5,843
Impairment	975	-
Amortisation of goodwill	1,606	1,606
Grant amortisation	(537)	(79)
Deferred income	(391)	(286)
(Increase)/decrease in stocks	(11,154)	2,224
(Increase)/decrease in debtors	(8,927)	9,059
Increase/(decrease) in creditors	6,509	(4,658)
Difference between pension charge and cash contributions	(1,540)	(750)
Net cash outflow from operating activities	(1,960)	15,482

(b) Restructuring costs paid

	2010 €'000	2009 €'000
Restructuring costs paid	(4,557)	(413)
Redundancy rebate received	584	40
Net cash outflow	(3,973)	(373)

(c) Returns on investments and servicing of finance

	2010 €'000	2009 €'000
Interest received	12	24
Interest paid	(713)	(941)
Interest on finance lease payments	(1)	(2)
Net cash outflow	(702)	(919)

Notes to the Financial Statements

25. Notes to the Consolidated Cash Flow Statement (continued)

(d) Capital expenditure and financial investment

	2010 €'000	2009 €'000
Purchase of fixed assets	(7,631)	(18,089)
Sales proceeds on disposal of fixed assets	17	43
Grants received	5,348	3,791
Cost of financial assets	-	(190)
Net cash outflow	(2,266)	(14,445)

(e) Financing

	2010 €'000	2009 €'000
Bank term loans repaid	(752)	(750)
Bank overdraft drawn down	391	1,789
Factored debt received/(repaid)	9,614	(1,986)
Capital element of finance lease payments	(29)	(80)
Share redemptions	(80)	(56)
Shares issued	-	5
Preference share redemption	-	(235)
Net cash inflow	9,144	(1,313)

26. Analysis and reconciliation of net debt

(a) Analysis and changes in net debt

	2009 €'000	Cash flow €'000	2010 €'000
Cash at bank and in hand	42	87	129
Overdraft/loans due within 1 year	(19,135)	(10,005)	(29,140)
Loans due after 1 year	(1,125)	752	(373)
Obligations under finance leases	(49)	29	(20)
Business Expansion Scheme (Note 15(a))	(1,755)	-	(1,755)
	(22,022)	(9,137)	(31,159)

Notes to the Financial Statements

26. Analysis and reconciliation of net debt (continued)

(b) Reconciliation of net cash flow - movement in net debt

	2010 €'000	2009 €'000
Net debt at beginning of year	(22,022)	(21,553)
Increase/(decrease) in cash	87	(1,731)
(Increase)/decrease in loans	(9,253)	947
Decrease in finance leases	29	80
Decrease in preference shares	-	235
Net debt at end of year	(31,159)	(22,022)

27. Financial risk management

Key financial risks are reviewed on an ongoing basis by the Board of Directors and management of the Society. The Society does not trade in financial instruments nor does it enter into any leveraged derivative transactions. The four key financial risks managed by the Society on an ongoing basis are interest rates, liquidity, credit and currency risks.

Interest rates

The objective of the Society's interest rate management policy is to manage the Society's debt to ensure that the cost of this debt is minimised. In this regard, the Society occasionally enters into interest rate swap agreements. No such agreements were used in the year to 1 January 2011.

Liquidity

The Society's objective is to ensure it has adequate funds available to meet its financial commitments as they fall due. Accordingly, it ensures an appropriate mix of current and long term borrowings and monitors future expected cash flows carefully.

Credit

The Society's objective is to ensure there are no significant risks to the Society from failure by customers to pay. To reduce this exposure the Society seeks to insure the majority of customers, within the Food Ingredients and Foodservices divisions, for credit risk. In addition, all customers must undergo a credit check before commencement of services.

Currency

The Society's reporting currency is the euro. Exposure to other currencies that arise in the course of ordinary trading, principally sterling and the US dollar, are monitored on an ongoing basis and are typically managed by entering into appropriate forward currency contracts.

28. Related party transactions

During the year, the Society traded with its joint venture, Socius Ingredients LLC, in the normal course of business. Sales to the joint venture amounted to €2,389,000 for the year (2009: €1,941,000). Balances due from the joint venture at the year end amounted to €1,464,000 (2009: €483,000).

In the ordinary course of their business as farmers, the Directors trade with the Society on standard commercial terms.

29. Board approval

These financial statements were approved by the Board of Directors on 11 March 2011.

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