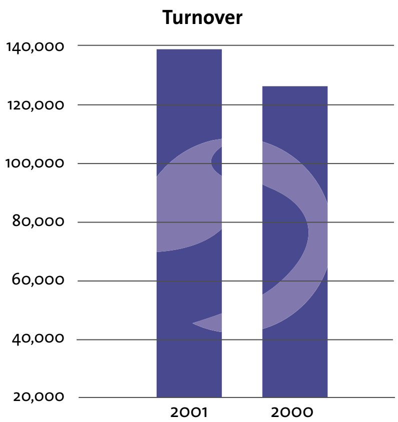
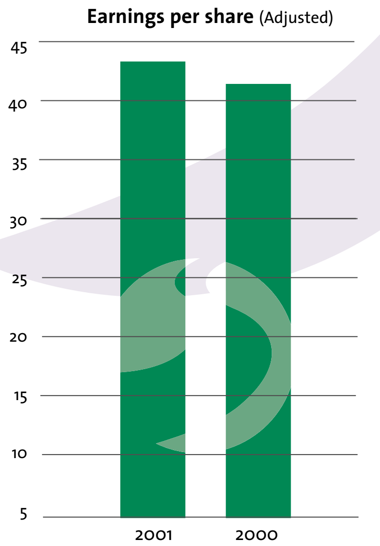
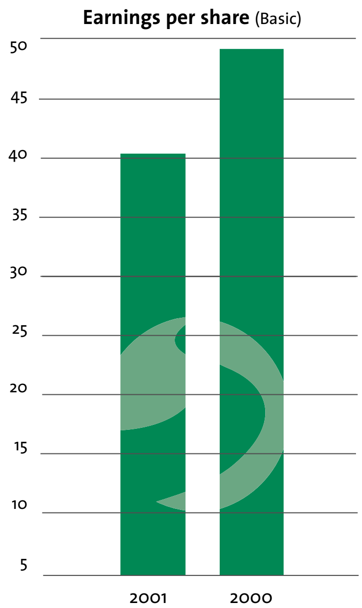
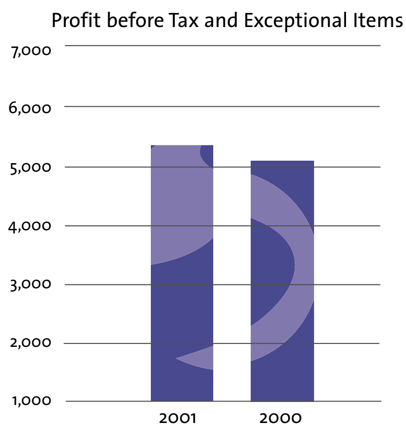
FINANCIAL HIGHLIGHTS

	2001 €'000	2000 €'000	Increase/ (Decrease)
Turnover (includes Joint Ventures)	139,419	125,930	10.7%
Operating Profit	4,393	3,315	32.5%
Profit before Tax and Exceptional Items	5,378	5,053	6.4%
Profit before Tax	5,074	6,215	(18.4%)
Profit after Tax	4,102	4,942	(17.0%)
Cash Flow (profit before tax, depreciation and amortisation)	7,348	7,938	(7.4%)
Earnings per Share (Adjusted)	43.4c	41.7c	4.1%
Earnings per Share (Basic)	40.4c	49.0c	(17.6%)
Dividend per Share	10.8c	10.2c	5.9%
Net Asset Value per Share (Excluding Minority Interest)	€3.23	€2.94	9.9%

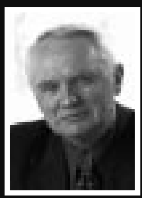








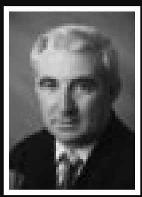
DIRECTORS AND OTHER INFORMATION


Lexie Tinney (1) (2) (3) (4)
Chairman


Ivan Grier (1) (2) (3) (4)
Vice Chairman


John Keon (1) (4)
Managing Director


Dominic Kelly (1) (4)
Finance Director


Francis Devenny (1) (2) (4)


David Gregg (1) (2) (4)


Patrick Kelly (1) (2) (4)


Matt McNulty (1) (2) (4)


Charles Tindal (1) (2) (4)


Geoffrey Vance (1) (2) (4)


Ivan Bates


Frank Browne


Brian Byrne


Donal Callaghan


Joseph Carlin


Sean Gallagher


Edward Kerr


Geoffrey McClay


John Moody


Ernest Moore


Robin Rankin


Marshall Robinson


Ronnie Russell


Fredrick Scott


Daniel Sweeney


Norman Witherow

(1) Members of Executive Committee
(2) Members of Audit Committee
(3) Members of Renumeration Committee
(4) Members of Nomination Committee

SECRETARY AND REGISTERED OFFICE
D Kelly, Ballyraine, Letterkenny, Co Donegal.

REGISTRARS
Computershare Investor Services (Ireland) Limited, Heron House, Carrig Road, Sandyford Industrial Estate, Dublin 18.

AUDITORS
PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Wilton Place, Dublin 2.

BANKERS
Ulster Bank Limited, Letterkenny, Co Donegal.

SOLICITORS
VP McMullin & Son, Letterkenny, Co Donegal.

Arthur Cox, Arthur Cox Building, Earlsfort Terrace, Dublin 2.

Matheson Ormbsy Prentice, 30 Herbert Street, Dublin 2.

STOCKBROKERS AND FINANCIAL ADVISORS
NCB Group Limited, 3 George's Dock, International Financial Services Centre, Dublin 1.

DIRECTORS AND OTHER INFORMATION *Continued*

BOARD OF DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Lexie Tinney (aged 63) is Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a council member of ICOS and a non-executive director of Carbury Mushrooms Limited.

Ivan Grier (aged 57) is Vice Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is also a member of the committee of management of the North Western Cattle Breeding Society.

Francis Devenny (aged 56) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer and has significant residential and other property interests in the Letterkenny area.

David Gregg (aged 53) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer. He is also a non-executive director of Convoy Enterprise Centre Limited and Gregg Care Limited.

Patrick Kelly (aged 57) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer and is a member of the committee of management of the North Western Cattle Breeding Society.

Matt McNulty (aged 56) was appointed to the Board on 19 August 1998. He has experience spanning over 35 years in the tourism and travel industries. He was most recently Director General of Bord Fáilte and has served on many Government bodies and committees dealing with tourism, transport, education, urban renewal, conservation, heritage and taxation policies. He was also a co-founder of the People in Need Trust Charity.

Charles Tindal (aged 65) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. He is a farmer and is a director of Donegal Carpets Limited. He is also a milk agent for Donegal Creameries plc.

Geoffrey Vance (aged 51) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer.

The following non-executive directors are farmers:

I Bates, F Browne, B Byrne, D Callaghan, J Carlin, S Gallagher, E Kerr, G McClay, J Moody, E Moore, R Rankin, M Robinson, R Russell, F Scott, D Sweeney and N Witherow.

EXECUTIVE DIRECTORS

John Keon, Dip Dy Science (aged 63) joined Donegal Co-operative Creameries Limited in 1973 and held a number of positions in the Group prior to his appointment as Chief Executive in late 1991. He was appointed to the Board of the Company in November 1997, at which time he became Managing Director. Prior to joining the group, he worked within the dairy industry in Co Donegal. He is a non-executive director of Carbury Mushrooms Limited, Erne Enterprise Limited and Camden Court Hotel Limited.

Dominic Kelly, FCCA (aged 45) joined Donegal Creameries plc in 1995 as Chief Accountant. Prior to joining Donegal Creameries plc, he was Finance Manager in Saehan Media Ireland Limited for a period of four years and prior to that he held a number of positions within the finance and accounting department of Abbott Ireland Limited. He was appointed to the Board of the Company in November 1997, at which time he became Finance Director. He is a non-executive director of Carbury Mushrooms Limited.

Chairman's Statement

Once again I am pleased to report on a year in which Donegal Creameries ("the Group") announces that both profitability (before exceptional items) and turnover reached record levels.

During the year under review, the Group's turnover rose to €139.4 million (including Joint Ventures of €24.8 million), an increase of 10.7% on turnover of €125.9 million generated for the year ended 31 December 2000 (Joint Venture Turnover: €28.3 million). The Group's operating profit increased to €4.4 million in the year under review, an increase of 32.5% on the 2000 figure of €3.3 million.

Profit before tax and exceptional items increased by 6.4% to €5.4 million in the year under review from €5.1 million in 2000.

Profit before tax (after exceptional items) decreased by 18.4% from €6.2 million in 2000 to €5.1 million in 2001. There were exceptional losses in 2001 of €0.3 million whilst the Group's results in 2000 were impacted by exceptional gains of €1.16 million. The exceptional losses arise from rationalisation/site closure costs associated with the Carbury Mushroom's UK operation. Business at the UK operation has been affected by continuing low yields and increased competition from growers in continental Europe, particularly the Dutch.

Donegal Creameries is once again able to announce that both ongoing profitability and turnover reached record levels.

Adjusted earnings per share increased by 4.1% to 43.4 cents (2000: 41.7 cents). Basic earnings per share decreased by 17.6% to 40.4 cents (2000: 49.0 cents)

Net Asset value per share increased by 9.9% to €3.23 at the end of 2001.

Dividends

The directors are recommending a final dividend of 6.05 cents per share for the year ended 31 December 2001. If approved the total dividend for the year ended 31 December 2001 will be 10.8 cents compared to a total dividend for the year ended 31 December 2000 of 10.2 cents, an increase of 5.9%. Subject to shareholder approval, the final dividend will be paid on 2 September 2002 to shareholders on the register on 2 August 2002.

Staff

Once again I would like to thank staff at all levels and across all our business units for their continued dedication and commitment throughout 2001.

Lexie Tinney
Chairman

Managing Director's Review

Dairy

Turnover in the Dairy Division for the year ended 31 December 2001 was €47.6 million, an increase of 11.5% on the 2000 figure of €42.7 million, due to an increase in the gallonage collected of 25.7 million compared with 23.8 million in 2000 and increased sales prices achieved, particularly on liquid milk.

Sales to other processors continue to account for a large proportion of the Group's turnover. The contribution to profits from this business was down on 2000, primarily due to weaker commodity markets, particularly in the second half of the year.

Profitability in the liquid milk area was up on 2000, primarily due to increased volumes, as the Group further grew its business outside the northwest region.

Sales volumes of the Group's UHT and extended shelf life products again showed significant growth in 2001 and this lead to an increased contribution to profitability.

The Group again had a significant contribution to profits from the sale of surplus assets and investments in 2001

Agricultural and Other Trading

Turnover in the Agri Trading Sector increased from €83.3 million in 2000 to €91.8 million in 2001, an increase of 10.3%.

Turnover from the Group's 14 Agri retail stores increased during the year with significant increases in Feeds, Cereals, Fencing and Silage covers/wrappings. Profits in this area were up on 2000 due to these increased sales and also due to purchasing efficiencies.

The Group's Animal Feed and Compounding Mill at Robert Smyths & Sons recorded increases in both turnover and profitability. This was primarily due to the full year impact of the acquisition of the goodwill and assets of Winston Patterson Ltd in November 2000.

Turnover and profitability at the Group's potato operations at Irish Potato Marketing (IPM) and Donegal Potatoes (DPL) increased primarily due to higher potato prices.

Income from the rental of the Group's lands at An Grianan was in line with last year.

Profitability from Oatfield was also in line with last year.

The Group again had a significant contribution to profits from the sale of surplus assets and investments in 2001.

Outlook

Based on information available to date the Directors believe that the Group's performance for the current fiscal year will be satisfactory.

Outlook: Dairy

Commodity dairy markets are going through a turbulent period at present, with both the prices of and demand for powder and casein particularly weak. Given these conditions, the Group has commenced a detailed review of its cost base with a view to improving cost efficiencies. The Group will continue to assess opportunities that may arise as a result of consolidation within the industry.

The Group will continue to develop its liquid milk business, particularly outside Co. Donegal, and continues to look at acquisition opportunities in this area. The Group also continues to seek additional growth opportunities for its UHT and related products.

Managing Director's Review
Continued

Outlook: Agricultural and Other Trading

Both animal feed sales and retail store sales are down on last year, due mainly to cut backs in milk production resulting from milk quota problems and the effects of the good weather.

The Group's land at an Grianan continues to be let for satisfactory rentals. The Group will continue to sell selected sites from the land which will not impinge on the rentals achieved. In addition, the Group is reviewing the development and tourism potential of the estate and is in discussions with various parties with a view to realising this potential. A preliminary proposal in this regard has been submitted to Bord Fáilte. The Group's proposal to develop a Joint Venture Section 50 development for student accommodation in Letterkenny is expected to be submitted for planning shortly.

The outlook for the Group's potato operations are good.

Oatfield has traded in line with projections for the year to date. The Group has experienced unanticipated delays in the proposed transfer of the Oatfield facility to an out of town location and this option is currently being reviewed. The Group is pursuing the purchase of mature confectionery lines which would add considerably to the scale and economies of the operation.

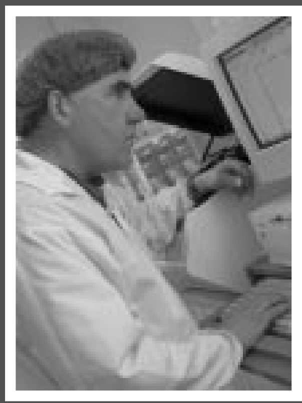
The outlook for the Group's potato operations are good. The Group has extended its growing operations to Holland to take advantage of climatic conditions and to be nearer key markets. While plantings in Europe are likely to increase in the current year, the Group's protected varieties and strong marketing skills should ensure another satisfactory performance.

Carbury Mushrooms has traded in line with projections for the year to date and should make a significant contribution to Group profits for the year. The problem with low yields seems to have receded. However, the increased threat from Dutch producers remains a concern as they increasingly look westwards to the UK market due to new competition from eastern European producers in their traditional markets.

Board and Staff

Once again, I would like to thank the Chairman and Board for their support and wise counsel during the year. Thanks also to a dedicated and loyal workforce and to our various support agencies and advisors.

John Keon
Managing Director



DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2001.

Principal activities

The company and its subsidiaries and joint venture are engaged in the intake and processing of milk, the manufacture of milk products, the development and sale of seed potatoes, the manufacture, sale and distribution of farm inputs, the leasing of land and milk quota, the manufacturing of confectionery, the manufacturing of mushroom compost and the growing and marketing of mushrooms.

Review of the business

Turnover increased by 10.7% to €139 million (2000: €126 million). The chairman's statement and managing director's review include a comprehensive review of the group's businesses.

Profits, dividends and reserves

Profit for the financial year amounted to €4,006,000 (2000: €4,868,000). An interim dividend of 4.75 cents per share was paid on 7 December 2001. It is proposed to pay a final dividend of 6.05 cents per share on 2 September 2002 to shareholders on the register at the close of business on 2 August 2002. The total dividend of 10.8 cents compares with 10.2 cents in 2000.

The retained profit for the year amounted to €2,932,000.

The results for the financial year ended 31 December 2001 are set out in detail on pages 20 to 53.

Share capital

At the Annual General Meeting of the company held on 26 July 1995, the shareholders sanctioned requisite alteration to the Articles of Association of the company to enable the group to purchase treasury shares and authorised the group to make market purchases (as defined by Section 212 of the Companies Act, 1990). The aggregate nominal value of shares authorised to be so acquired was not to exceed 10% of the aggregate nominal value of the issued share capital of the company. This authority was renewed at subsequent Annual General Meetings.

Throughout the year ending 31 December 2001, 107,828 ordinary shares of 13 cents each were held as treasury shares by Donegal Creameries plc. This represented 1.1% of the called up share capital of the company. These shares were acquired at a cost of €129,110.

Future developments in the business

A review of future developments in the business is included in the Managing Director's Review on pages 6 to 9.

Events since the year end

There have been no significant events effecting the group since the year end.

Directors

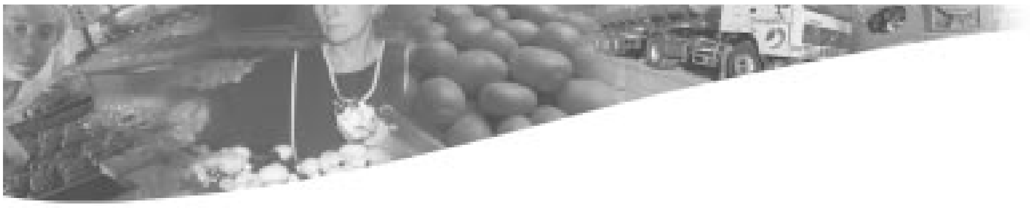
The directors of the company on 29 May 2002 are listed on pages 2 and 3.

G McClay was appointed to the board on 4 July 2001. T Mc Elhinney retired from the Board on 4 July 2001.

Except as noted above, each of the directors served for the entire year. I Bates, F Browne, I Grier, E Kerr (Senior), R Russell, R Rankin and N Witherow retire by rotation. I Bates, F Browne, I Grier, E Kerr (Junior), M Reid, R Rankin and R Russell have been chosen at the area electoral meetings for election as directors at the Annual General Meeting.

M McNulty also retires from the Board by rotation and, being eligible, offers himself for re-election.

None of the directors offering themselves for re-election has a service contract with the company or any of its subsidiaries.



Corporate governance

The directors support the Principles of Good Governance set out in the Combined Code, derived by the Committee on Corporate Governance from the Committee's final report and from the Cadbury and Greenbury Reports.

It is the practice of the company that a majority of the Board comprises non-executive directors and that the chairman be non-executive. The board meets regularly throughout the year. There is a formal schedule of matters reserved to the board for consideration and decision.

The group has both an audit committee and a remuneration committee, membership of which is comprised of non-executive directors only, and a nomination committee, membership of which is comprised of a majority of non-executive directors. The audit committee met with the external auditors to review the range and findings of their work and the financial statements prior to their submission to the board.

The directors have adopted a code governing dealings by the directors and certain employees in the company's shares. This code contains terms no less exacting than those of the model code contained in the Irish Stock Exchange's Listing Rules.

The directors confirm that except in relation to the matters referred to below, the company has complied with all of the provisions of the Combined Code, throughout the accounting period.

a) The majority of the non-executive directors, as farmers, have a business relationship with the group; and

b) The company has not nominated a senior independent director.

The report of the remuneration committee on behalf of the board is set out on pages 14 to 17.

Internal control

The directors have overall responsibility for the group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors confirm that the group's ongoing process for identifying, evaluating and managing its significant risks is in accordance with the guidance in "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance), issued in September 1999. The process has been in place throughout the year and up to the date of approval of the annual report and financial statements and is subject to regular review by the board.

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

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

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

The audit committee, a formally constituted sub-committee of the board, comprising only non-executive directors, meets on a regular basis with the external auditors and satisfies itself as to the adequacy of the group's internal control systems.

The directors confirm that they have conducted an annual review of the effectiveness of the system of internal control up to and including the date of approval of the financial statements. This had regard to the processes for identifying the principal business risks, the controls that are in place to contain them and the procedures to monitor them.

DIRECTORS' REPORT continued

Going concern
After making enquiries, the directors have a reasonable expectation that the company, and the group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Substantial holdings
As at 29 May 2002, the company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
Bank of Ireland Nominees Limited	640,137	6.38
Merrion Stockbrokers Nominee Limited	309,869	3.09

Both Bank of Ireland Nominees Limited and Merrion Stockbrokers Nominee Limited state that these shares are not beneficially owned by them.

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

Employee welfare
It is the policy of the group to ensure the health and welfare of employees by maintaining a safe place and system of work. This policy which was applied throughout the year, is based on the requirements of the Safety, Health and Welfare at Work Act, 1989.

Statement of directors' responsibilities
Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Irish Companies Acts, 1963 to 2001 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

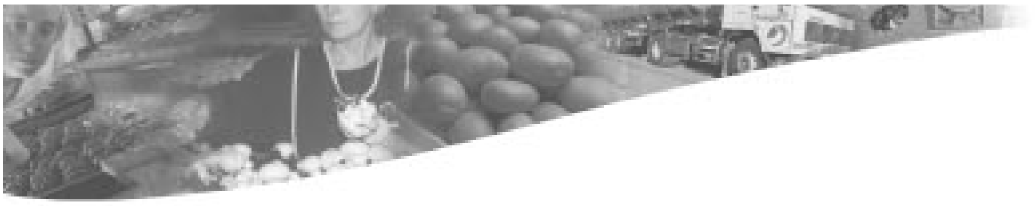
Books of account
The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Ballyraine, Letterkenny, Co Donegal.

Auditors
The auditors, PricewaterhouseCoopers, have expressed their willingness to be re-appointed in accordance with section 160(2) of the Companies Act, 1963.

Tax status
The company is not a close company under the provisions of the Taxes Consolidation Act, 1997.

Group companies
Information relating to subsidiary and associated undertakings is included in note 33 to the financial statements.

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



DIRECTORS' REPORT continued

AGM

The Company's Annual General Meeting will take place at the Mount Errigal Hotel, Letterkenny, Co. Donegal on 3 July 2002. Your attention is drawn to the separate circular enclosed with the annual report and financial statements containing the notice of meeting and an explanatory statement which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the board:

Lexie Tinney	Chairman
John Keon	Managing Director

29 May 2002

REPORT OF THE REMUNERATION COMMITTEE ON BEHALF OF THE BOARD

Composition of board and remuneration committee

It is the practice of the company that a majority of the board comprises non-executive directors and that the chairman be non-executive. The remuneration committee consists solely of non-executive directors. The managing director is fully consulted about remuneration proposals and outside advice is sought when necessary. The members of the remuneration committee are L Tinney and I Grier.

The terms of reference for the committee are to determine the group's policy on executive remuneration and to consider and approve salaries and other terms of the remuneration package for the executive directors.

Remuneration policy

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

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

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

Executive directors' basic salary and benefits

The basic salaries of executive directors are reviewed annually having regard to personal performance, company performance, changes in responsibilities and competitive market practice in the area of operation. Employment related benefits consist principally of a company car. No fees are payable to executive directors.

Incentive plan

The managing director is entitled to receive bonus payments as the remuneration committee may decide at their absolute discretion, subject to a maximum bonus of €50,790 per annum. The committee's decision shall be based on the managing director's performance on the basis that he does not have a contractual right to receive a payment.

Share option scheme

The two executive directors hold options as set out on page 16 together with the attaching performance conditions.

Directors' service contracts

The managing director has a service agreement appointing him as managing director for three years commencing on 1 December 1997 and continuing thereafter unless and until terminated by either party, giving not less than six months notice. This agreement automatically terminates on the managing director obtaining the age of sixty five years.

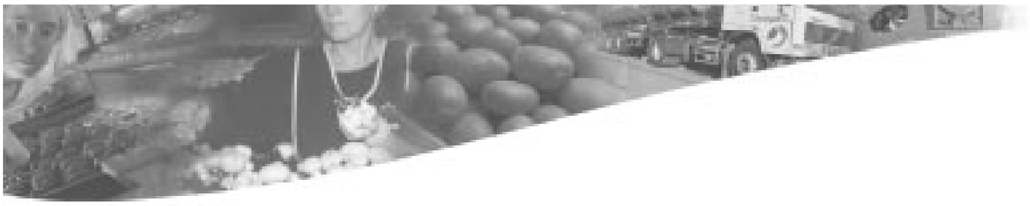
None of the other directors has a service contract with any member of the group.

Directors' remuneration and interests in share capital

Details of directors' remuneration is given on pages 15 and 16, details of directors' share options and shareholdings are given on pages 16 and 17 and details of directors pensions are set out below.

Pensions

The two executive directors are entitled to benefits under defined benefit scheme pension arrangements. The aggregate amount of the increase in accrued pension entitlement (excluding inflation) for such directors amounted to €2,212 the aggregate amount of the transfer value of this increase in accrued pension entitlement (excluding inflation) in the period from 1 January 2001 to 31 December 2001 amounted to €23,325 and the aggregate amount of the total accrued benefit entitlement to such directors at 31 December 2001 amounted to €96,680.



REPORT OF THE REMUNERATION COMMITTEE ON BEHALF OF THE BOARD continued

Directors' remuneration

Notes	Executive directors	2001 €	2000 €
	Salaries and benefits		
	Basic salary	229,187	200,619
1	Benefits	25,556	26,224
		254,743	226,843
	Performance related		
2	Annual incentives	50,790	50,790
3	Pension charge	132,768	101,071
	Total executive directors' remuneration	438,301	378,704
	Average number of executive directors	2	2
	Average annual basic salary per executive director	114,594	100,309
	Non executive directors		
	Fees and other emoluments		
4	Fees	25,394	25,394
	Other emoluments and benefits	-	-
		25,394	25,394
	Other remuneration	-	-
	Total non-executive directors' remuneration	25,394	25,394
	Average number of non-executive directors	24	24
	Total directors' remuneration	463,695	404,098

Notes to directors' remuneration

1. Benefits principally relate to use of a company car.

2. The incentive plan is outlined on page 14.

3. The pension charge represents payments made to pension funds as advised by independent actuaries.

4. Two non-executive directors received a fee in 2001 (2000: Two)

REPORT OF THE REMUNERATION COMMITTEE ON BEHALF OF THE BOARD *continued*

Individual remuneration for the year ended 31 December 2001

	Basic salary €	Fees €	Incentive bonus €	Benefits €	Total 2001 €	Total 2000 €
Executive directors						
J Keon	124,434	-	50,790	15,893	191,117	191,489
D Kelly	104,753	-	-	9,663	114,416	86,144
	229,187	-	50,790	25,556	305,533	277,633
Non-executive directors						
L Tinney	-	12,697	-	-	12,697	12,697
M McNulty	-	12,697	-	-	12,697	12,697
	-	25,394	-	-	25,394	25,394

Pension entitlements

Pension benefits earned by the directors during the year and the accumulated total accrued pension at 31 December 2001 were as follows:

	Increased in accrued pension during 2001 €	Transfer value of increase €	Total accrued pension at year - end €
J Keon	1,256	17,261	88,580
D Kelly	956	6,064	8,100
	2,212	23,325	96,680

Directors' share options

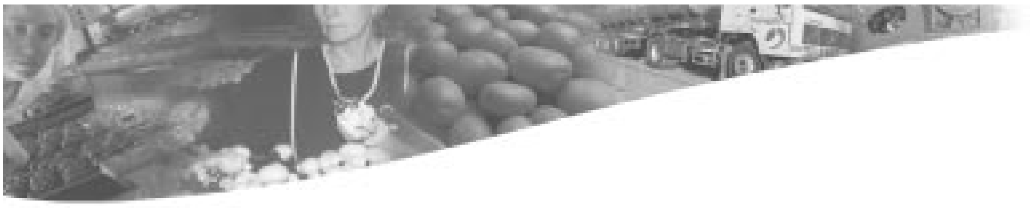
Details of movements on outstanding options are set out below:

	At 1 January 2001	Granted in 2001	Exercise in 2001	At 31 December 2001	Option price
D Kelly	25,000	-	-	25,000	(b) €2.10
J Keon	30,000	-	-	30,000	(a) €0.83
	30,000	-	-	30,000	(a) €1.14
	150,000	-	-	150,000	(b) €2.10
	235,000	-	-	235,000	

No options lapsed during the year. The market price of the company's shares at 31 December 2001 was €2.40 and the range during 2001 was €1.70 to €2.40.

(a) There is no time limit for the exercise of these options, which are exercisable after 1 May 1995.

(b) These options are only exercisable when earnings per share (EPS) growth exceeds the growth of the Irish Consumer Price Index plus 2% over a period of at least three years subsequent to the granting of the options. These options may only be exercised between November 2000 and November 2007.



REPORT OF THE REMUNERATION COMMITTEE ON BEHALF OF THE BOARD continued

Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2001 in the ordinary shares of the company at 1 January 2001 (or date of appointment, if later) and 31 December 2001 are set out below:

	Ordinary 13 cents shares 31 December 2001	Ordinary 10p shares 1 January 2001 (or date of appointment, if later)
Directors:		
L Tinney	95,812	95,812
I Grier	45,243	45,243
J Keon	173,909	167,861
D Kelly (Secretary)	8,614	8,290
F Devenny	44,178	42,518
D Gregg	202,813	202,813
P Kelly	124,860	124,860
M McNulty	-	-
C Tindal	30,974	30,974
G Vance	171,939	171,939
I Bates	67,044	67,044
F Browne	5,158	4,965
B Byrne	19,115	18,396
D Callaghan	12,898	12,898
J Carlin	7,521	7,238
S Gallagher	14,004	13,478
E Kerr	24,565	23,641
G McClay	8,852	8,670
J Moody	54,997	54,997
E Moore	12,050	12,050
R Rankin	12,961	12,961
M Robinson	31,845	30,648
R Russell	47,560	47,560
F Scott	24,266	24,266
D Sweeney	9,140	9,140
N Witherow	83,626	80,951

The directors and secretary and their families had no other interests in the shares of the company or its subsidiary and associated undertakings at 31 December 2001.

Between 31 December 2001 and 29 May 2002, the directors listed below acquired the number of shares listed below.	Number of shares
J Keon	2,614
D Kelly	131
F Browne	79
B Byrne	292
J Carlin	115
F Devenny	675
S Gallagher	214
E Kerr	375
M Robinson	486
N Witherow	1,087
D Sweeney	139
G McClay	135
P Kelly	30

Independent auditors' report to the shareholders of Donegal Creameries Plc

We have audited the financial statements on pages 20 to 53 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and on the basis of the accounting policies set out on pages 20 and 21.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 12 in the statement of directors responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, auditing standards issued by the Auditing Practices Board applicable in Ireland and the Listing Rules of the Irish Stock Exchange.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001, and the European Communities (Companies: Group Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to hold an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement and the managing director's review.

We review whether the corporate governance statement on page 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the company's or the group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

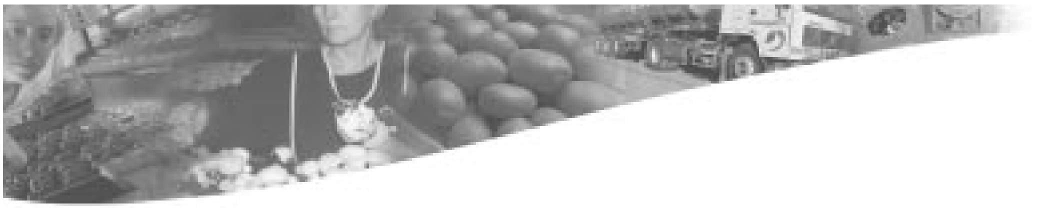
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and the European Communities (Companies: Group Accounts) Regulations, 1992.

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 company. The company balance sheet is in agreement with the books of account.



AUDITORS' REPORT continued

In our opinion, the information given in the directors' report on pages 10 to 13 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 24, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2001 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

29 May 2002

ACCOUNTING POLICIES

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

Basis of preparation
The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2001, and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements are presented in euro. The comparative figures, which were previously presented in Irish pounds, have been restated at the fixed rate of €1=IR£0.787564.

Basis of consolidation
The group financial statements include the financial statements of the holding company and its subsidiary undertakings made up to the end of the financial year and the group's share of results and net assets, including premium on acquisition, of its joint venture and associated undertakings. Where a subsidiary, joint venture or an associate is acquired during the financial year, the group financial statements include the attributable results from the date of acquisition up to the end of the financial year.

Goodwill
Goodwill arising on the acquisition of shares in subsidiary companies prior to 1 January 1998, being the excess of cost over the fair value of the group's share of net assets acquired, was written off against the profit and loss account in the year of acquisition and negative goodwill, being the excess of the fair value of the group's share of net assets acquired over the cost of acquisition, was credited to a reserve on acquisition. As a result of the implementation of Financial Reporting Standard No. 10 - Goodwill and Intangible Assets, goodwill on acquisitions after 1 January 1998 is capitalised in the year of acquisition and amortised to the profit and loss account over its expected useful life.

Goodwill arising on the acquisition of milk runs, being the consideration paid to acquire the liquid milk business of small dairies, is charged to the profit and loss account in the year in which it is incurred.

Investment property
Investment property is stated at cost, less provision for any permanent diminution in value.

Disposal of houses and sites off the Grianán estate are deemed to have no cost as, in the opinion of the directors, such transactions do not have a material impact on the value of the estate.

Tangible fixed assets
Freehold land and buildings are stated at cost or valuation less accumulated depreciation on buildings.

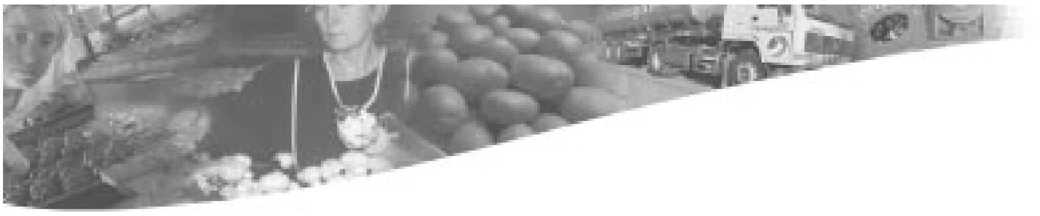
Other tangible assets are stated at cost less accumulated depreciation.

Depreciation is calculated in order to write off the cost or valuation of tangible assets other than land over their estimated useful lives by equal annual instalments.

The group does not adopt a policy of revaluation. Under the transitional provisions of Financial Reporting Standard No 15 - Tangible Fixed Assets, the group has retained the book amounts of land and buildings which were revalued in 1988 and has not updated that valuation.

Subsidiary undertakings
Interests in subsidiary undertakings are stated in the holding company's balance sheet at cost less provision for any permanent diminution in value.

Associated undertakings
Interests in associated undertakings are stated in the group balance sheet at the group's share of the net assets of the companies together with the premiums paid on the acquisition of the interest in associated undertakings in so far as they have not already been written off.



ACCOUNTING POLICIES continued

Trade investments
Trade investments are stated at cost less provision for any permanent diminution in value.

Pensions
The group makes contributions to independently administered pension funds and the contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the group. The amount of such contributions are determined following consultations with independent actuaries. The disclosures required under the transitional arrangements of Financial Reporting Standard 17 'Retirement Benefits' for the year ended 31 December 2001 are shown in note 26.

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

Cost comprises purchase price, including transport costs where appropriate.

Net realisable value comprises the actual or estimated selling price (before settlement discounts), less all costs to be incurred in marketing, selling and distribution.

Deferred taxation
Deferred taxation is provided on timing differences to the extent that it is expected to become payable in the foreseeable future and any amount not provided is disclosed as a contingent liability.

Timing differences are temporary differences between profits as computed for taxation purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different periods for taxation purposes.

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date or, where appropriate, at the rates of exchange in related forward exchange contracts. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the dates of the transactions or, where appropriate, at the rates of exchange in related forward exchange contracts. Trading results of foreign subsidiaries are translated into Euro at the rates ruling at the balance sheet date. Exchange adjustments arising from the restatement of opening balance sheets of foreign subsidiaries are dealt with through reserves.

Profits and losses arising from foreign currency translations and on settlement of amounts receivable and payable in foreign currency are dealt with through the profit and loss account.

Monetary assets are monies held and amounts to be received in money; all other assets are non-monetary assets.

Derivative instruments
Derivative instruments such as forward foreign exchange contracts are used in hedging transactions. Profits and losses are recognised in accordance with the underlying transactions.

Leasing
An asset acquired under a lease that transfers substantially all the risks and rewards of ownership to the group (finance lease) is capitalised as a tangible asset and depreciated over the shorter of the lease term or the estimated useful life. The corresponding obligations (net of finance charges) are included in creditors. Finance charges are allocated to accounting periods over the primary period of the lease and represent a constant proportion of the balance of capital payments outstanding.

Government grants
Government grants received for the purpose of purchasing fixed assets are credited to the profit and loss account in the same period as the related assets are depreciated.

Research and development
Research and development expenditure is written off as incurred.

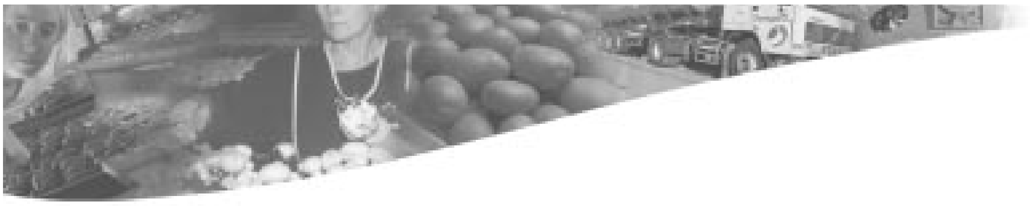
GROUP PROFIT AND LOSS ACCOUNT *Year ended 31 December 2001*

	Notes	2001 Total €'000	2000 Total €'000
Turnover : group and share of joint ventures	1	139,419	125,930
Less : share of joint venture's turnover		(24,847)	(28,277)
Group turnover		114,572	97,653
Cost of sales		(96,670)	(84,034)
Gross profit		17,902	13,619
Distribution costs		(6,846)	(5,069)
Administration expenses		(5,209)	(4,605)
Other operating income/(costs)		(1,454)	(630)
Operating profit		4,393	3,315
Profit on disposal of fixed assets		85	223
Profit on disposal of fixed assets destroyed by fire		-	3,244
Profit on disposal of investments		601	580
Share of results of joint venture		862	1,152
Share of joint venture's exceptional losses	2	(304)	(2,082)
Share of results of associated undertakings		79	42
Income from financial assets	3	846	834
Profit on ordinary activities before interest		6,562	7,308
Interest receivable		14	53
Interest payable			
- Group	4	(916)	(461)
- Joint venture	4	(586)	(685)
Profit on ordinary activities before taxation	5	5,074	6,215
Taxation	6	(972)	(1,273)
Profit on ordinary activities after taxation		4,102	4,942
Minority interest		(96)	(74)
Profit for the financial year		4,006	4,868
Dividends: Paid	7	(471)	(442)
: Proposed	7	(603)	(568)
Profit retained in year		2,932	3,858
Earnings per share			
- basic	8	40.4c	49.0c
- diluted	8	40.0c	48.6c
Excluding exceptional items			
- basic	8	43.4c	41.7c
- diluted	8	43.0c	41.3c

See note 19 for movements on reserves
Turnover and operating profit arose solely from continuing operations.
The notes on pages 27 to 53 form part of these financial statements.

On behalf of the board:

Lexie Tinney Chairman
John Keon Managing Director



GROUP BALANCE SHEET 31 December 2001

	Notes	2001 €'000	2000 €'000
Fixed assets			
Tangible assets	9	21,553	15,423
Financial assets	10	10,102	10,822
Investments in joint venture			
- Share of gross assets	10	14,259	15,534
- Share of gross liabilities	10	(14,246)	(15,248)
Intangible assets	11	2,082	2,105
		33,750	28,636
Current assets			
Stocks	12	8,760	8,213
Debtors	13	33,681	29,586
Cash at bank and in hand		683	-
		43,124	37,799
Creditors - Amounts falling due within one year	14	(34,990)	(33,641)
Net current assets		8,134	4,158
Total assets less current liabilities		41,884	32,794
Creditors - Amounts falling due after one year	15	(7,808)	(2,576)
Provisions for liabilities and charges	16	(645)	(334)
		33,431	29,884
Capital and reserves			
Called up share capital	17	1,304	1,274
Share premium	18	2,546	2,546
Revaluation reserve	19	312	312
Reserve on acquisition	19	293	293
Other reserves	19	189	189
Profit and loss account	19	27,419	24,540
Shareholders' funds - equity	20	32,063	29,154
Minority interest in subsidiaries	21	1,368	730
		33,431	29,884

The notes on pages 27 to 53 form part of these financial statements.

On behalf of the board:

Lexie Tinney   Chairman
John Keon   Managing Director

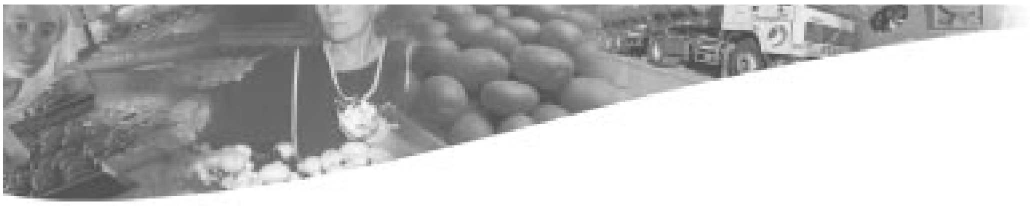
COMPANY BALANCE SHEET *31 December 2001*

	Notes	**2001** €'000	2000 €'000
Fixed assets			
Tangible assets	9	1,849	1,553
Financial assets	10	15,927	15,079
		17,776	16,632
Current assets			
Stocks	12	3,582	3,644
Debtors	13	16,803	13,440
Cash at bank and in hand		16,816	585
		37,201	17,669
Creditors - Amounts falling due within one year	14	(42,168)	(26,794)
Net current liabilities		(4,967)	(9,125)
Total assets less current liabilities		12,809	7,507
Creditors - Amounts falling due after one year	15	(7,739)	(1,845)
Provision for liabilities and charges	16	(64)	(51)
		5,006	5,611
Capital and reserves			
Called up share capital	17	1,304	1,274
Share premium	18	2,546	2,546
Revaluation reserve	19	155	155
Other reserves	19	189	189
Profit and loss account	19	812	1,447
Shareholders' funds - equity		5,006	5,611

The notes on pages 27 to 53 form part of these financial statements.

On behalf of the board:

Lexie Tinney	Chairman
John Keon	Managing Director



STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES -Year ended 31 December 2001

	2001	2000
	€'000	€'000
Profit for the financial year	4,006	4,868
Translation adjustment	(23)	2
Total recognised gains and losses for the year	3,983	4,870

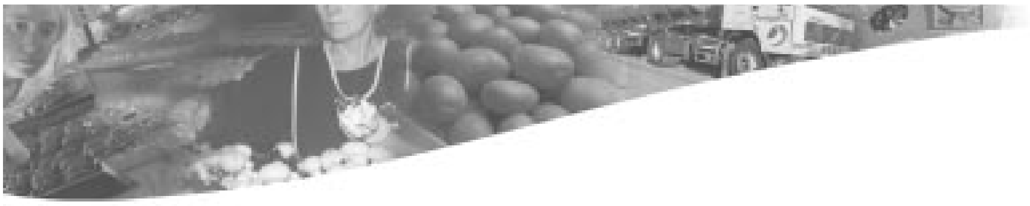
NOTE OF HISTORICAL COST PROFITS AND LOSSES -Year ended 31 December 2001

	2001	2000
	€'000	€'000
Reported profit on ordinary activities before taxation	5,074	6,215
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	10	10
Historical cost profit on ordinary activities before taxation	5,084	6,225
Historical cost profit for the year retained after taxation, minority interests and dividends	2,942	3,868

GROUP CASH FLOW STATEMENT year ended 31 December 2001

	Notes	2001 €'000	2001 €'000	2000 €'000	2000 €'000
Net cash inflow from operating activities	27		4,292		3,687
Return on investments and servicing of finance					
Dividends received from listed investments		-		80	
Dividends received from associate undertaking		-		41	
Property and milk quota leasing receipts		456		469	
Dividends paid to minority interests		(2)		-	
Interest received		14		14	
Interest paid		(815)		(343)	
Net cash (outflow)/ inflow from returns on investments and servicing of finance			(347)		261
Taxation paid			(970)		(504)
Capital expenditure and financial investment					
Sale of tangible assets		599		2,880	
Purchase of tangible assets		(7,363)		(3,748)	
Purchase of financial assets		-		(187)	
Sale of financial assets		209		2,386	
Additions to investment property		(60)		(33)	
Net cash (outflow)/ inflow from capital expenditure and financial investment			(6,615)		1,298
Acquisitions					
Acquisition of loan stock in Carbury Mushrooms Ltd		(122)		(547)	
Acquisition of stores from Lakeland Agricare		(65)		(100)	
Acquisition of Wm McKinney & Sons Ltd	15	(182)		(241)	
Acquisition of Robert Smyth & Sons		(197)		(499)	
Acquisition of trade of Winston Patterson Ltd		(1,015)		(6,537)	
Acquisition of McCorkell Holdings Ltd	10	(547)		-	
Net cash outflow from acquisitions			(2,128)		(7,924)
Equity dividends paid			(1,010)		(758)
Net cash outflow before financing			(6,778)		(3,940)
Financing					
Increase in bank loans		11,428		-	
Finance lease payments		(28)		(41)	
Net cash inflow/(outflow) from financing			11,400		(41)
Increase/(decrease) in cash	30		4,622		(3,981)

The notes on pages 27 to 53 form part of these financial statements.



		2001	2000
1	Turnover	€'000	€'000
a)	By class of business:		
	Group turnover:		
	Dairy products	47,585	42,677
	Farm inputs	42,724	33,530
	Potatoes	14,467	12,631
	Confectionery	7,684	7,171
	Sacks	1,755	1,644
	Stevedoring	357	-
		114,572	97,653
	Share of joint venture's turnover:		
	Mushrooms and mushroom compost	24,847	28,277
	Turnover: group and share of joint ventures	139,419	125,930
b)	By geographical market:		
	Group turnover:		
	Republic of Ireland	77,606	63,276
	Northern Ireland	22,892	21,483
	Great Britain	3,694	3,614
	Continental Europe	3,381	2,840
	Rest of world	6,999	6,440
		114,572	97,653
	Share of joint venture's turnover:		
	Republic of Ireland	4,522	4,406
	Northern Ireland	505	900
	Great Britain	19,820	22,971
		24,847	28,277
	Turnover: group and share of joint ventures		
	Republic of Ireland	82,128	67,682
	Northern Ireland	23,397	22,383
	Great Britain	23,514	26,585
	Continental Europe	3,381	2,840
	Rest of world	6,999	6,440
		139,419	125,930

The disclosure of segmental information in respect of profits and net assets as required by Statement of Standard Accounting Practice No. 25, "Segmental Reporting" (SSAP25) would, in the opinion of the directors, be prejudicial to the interests of the group and accordingly has not been disclosed as permitted by SSAP25.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Share of joint venture's exceptional losses

The group has a 52.5% interest in Carbury Mushrooms Limited ("Carbury"). The group's share of Carbury's exceptional losses relate to:

	€
Overprovision for loss on liquidation of Shepherd's Grove Limited in prior year	(153,000)
Provision against investment in William Lords (Leeds) Limited	287,000
Redundancy costs	170,000
	304,000

Liquidation of Shepherd's Grove Limited

One of Carbury's subsidiaries, Sheperd's Grove Limited, was placed into liquidation at a meeting of its creditors on 19 March 2001. Prior to the creditor's meeting, the company was suffering trading losses as a result of significant production problems, which lead to very low yields. One of the company's two farms was closed in October 2000 and the employees made redundant. The second farm was closed in March 2001, when the company went into liquidation.

At 31 December 2000, Donegal Creameries' share of the loss on the termination of the company was estimated at €2,082,000 and provision was made for this amount in the 2000 financial statements. As a result of the sale of assets for amounts in excess of those envisaged at the time of the preparation of the 2000 financial statements, Donegal Creameries' actual share of the loss on termination was €153,000 less than the amount provided for at 31 December 2000.

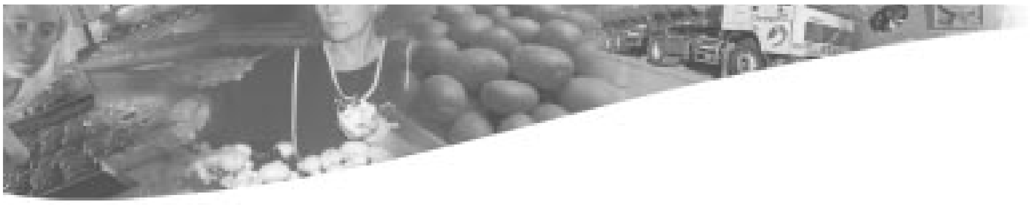
Provision against William Lord (Leeds) Limited

One of Carbury's subsidiaries holds a 40% interest in William Lord (Leeds) Limited, which was placed into liquidation at a meeting of its creditors on 7 May 2002. Carbury does not expect to receive a dividend from the liquidator in relation to its equity investment, against which it has made a full provision. Carbury has also made a provision against loan and trading balances due from the company. Donegal Creameries' share of these provisions was €287,000.

Redundancy costs

Due to a downturn in its mushroom compost business, one of Carbury's UK subsidiaries incurred significant redundancy costs as part of a restructuring of its operations. Donegal Creameries' share of these redundancy costs was €170,000.

3 Income from financial assets	2001 €'000	2000 €'000
Income from financial assets comprises:		
Lease of property	440	397
Lease of milk quota	43	47
Dividends receivable from listed investments	1	80
Income receivable on loan stock issued by joint venture company	362	310
	846	834



NOTES TO THE FINANCIAL STATEMENTS continued

		2001	2000
4	Interest payable	€'000	€'000
	This interest was in respect of:		
	Borrowings wholly repayable within five years		
	- bank overdraft and loans	811	335
	- finance lease	3	9
	- other borrowings	14	14
	Other interest	88	103
		916	461
	Share of interest payable by joint venture	586	685
		1,502	1,146

		2001	2000
5	Profit before taxation	€'000	€'000
	Profit before taxation has been arrived at after charging/(crediting):		
	Depreciation	2,161	1,707
	Auditors' remuneration	65	58
	Amortisation of goodwill on acquisition of subsidiaries	112	17
	Goodwill on (disposal)/acquisition of milk runs	-	1
	Provision for bad and doubtful debts	1,516	933
	Provisions against investments	239	187
	Amortisation of capital grants	(15)	(52)

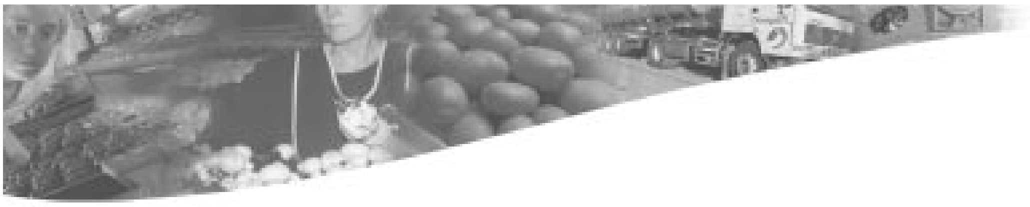
		2001	2000
6	Taxation	€'000	€'000
	Based on profit on ordinary activities:		
	Irish corporation tax at 20% (2000: 24%)	475	1,131
	Manufacturing relief	(90)	(339)
		385	792
	United Kingdom corporation tax at 30%	50	84
	Deferred taxation (note 16)	311	260
	Share of tax of joint venture	226	137
	Share of tax of associated undertakings	-	-
		972	1,273

The charge for taxation on the profit on ordinary activities has been reduced as a result of the lower rate of tax applicable to the manufacturing and deemed manufacturing activities carried on by the group.

		2001	2000
7	Dividends	€'000	€'000
	Interim ordinary dividend paid of 4.75 cents per share (2000: 4.44 cents)	471	442
	Final dividend proposed of 6.05 cents per share (2000: 5.71 cents)	603	568
		1,074	1,010

NOTES TO THE FINANCIAL STATEMENTS continued

		2001	2000
8	Earnings per share		
	The computation of basic and diluted earnings per share is set out below:		
	Numerator:		
	For basic and diluted earnings per share		
	Profit for the financial year (€'000)	4,006	4,868
	For earnings per share excluding exceptional items		
	Profit for the financial year	4,006	4,868
	Profit on disposal of fixed assets destroyed by fire	-	(3,244)
	Tax on profit on disposal of fixed assets destroyed by fire	-	434
	Share of joint venture's loss on termination of subsidiary	304	2,082
	Share of joint venture's tax on loss on termination of subsidiary	-	-
	Numerator for earnings per share excluding exceptional items (€'000)	4,310	4,140
	Denominator:		
	Weighted average number of ordinary shares in issue for the year	10,034,990	10,034,990
	Average number of treasury shares	(107,828)	(107,828)
	Denominator for basic earnings per share	9,927,162	9,927,162
	Effect of dilutive potential Ordinary Shares (share options)	92,438	89,288
	Denominator for diluted earnings per share	10,019,600	10,016,450
	Basic earnings per Ordinary Share	40.4 c	49.0 c
	Diluted earnings per Ordinary Share	40.0c	48.6 c
	Excluding exceptional items		
	- basic	43.4 c	41.7 c
	- diluted	43.0 c	41.3 c



NOTES TO THE FINANCIAL STATEMENTS continued

9 Tangible assets

Group	Freehold land and buildings €'000	Plant €'000	Fixtures and fittings €'000	Motor vehicles €'000	Tankers and trailers €'000	Total €'000
Cost or valuation						
At 31 December 2000						
- Valuation	775	-	-	-	-	775
- Cost	6,670	14,548	1,983	2,795	919	26,915
Additions	3,077	3,672	184	419	49	7,401
Acquisitions	1,003	347	10	34	-	1,394
Disposals	(396)	(112)	(124)	(483)	(25)	(1,140)
Translation adjustment	10	2	2	1	-	15
At 31 December 2001	11,139	18,457	2,055	2,766	943	35,360
Accumulated depreciation						
At 31 December 2000	1,545	7,561	1,162	1,288	711	12,267
Charge for year	218	1,116	267	495	65	2,161
Disposals	-	(111)	(116)	(373)	(25)	(625)
Translation adjustment	1	1	1	1	-	4
At 31 December 2001	1,764	8,567	1,314	1,411	751	13,807
Net book amounts						
At 31 December 2000	5,900	6,987	821	1,507	208	15,423
At 31 December 2001						
- valuation	775	-	-	-	-	775
- cost	10,364	18,457	2,055	2,766	943	34,585
- accumulated depreciation	(1,764)	(8,567)	(1,314)	(1,411)	(751)	(13,807)
	9,375	9,890	741	1,355	192	21,553

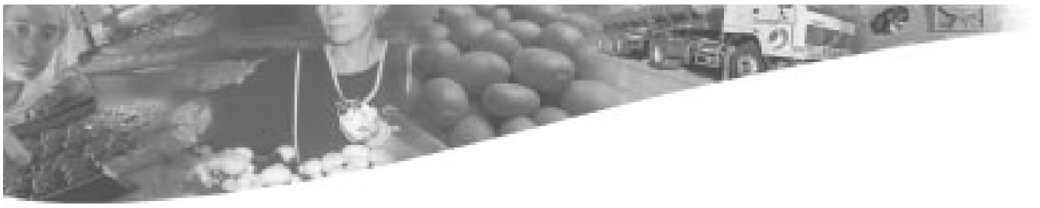
NOTES TO THE FINANCIAL STATEMENTS continued

9 Tangible assets - continued

	2001 €'000	2000 €'000
Included above are the following amounts in respect of assets held under finance leases:		
Net book amount	56	109
Depreciation charge for year	13	27

	Freehold land and buildings €'000	Plant €'000	Fixtures and fittings €'000	Motor vehicles €'000	Total €'000
Company					
Cost or valuation					
At 31 December 2000					
- valuation	775	-	-	-	775
- cost	883	410	788	535	2,616
Additions	424	2	68	68	562
Disposals	-	-	-	(48)	(48)
At 31 December 2001	2,082	412	856	555	3,905
Accumulated depreciation					
At 31 December 2000	681	345	533	279	1,838
Charge for year	69	10	96	89	264
Disposals	-	-	-	(46)	(46)
At 31 December 2001	750	355	629	322	2,056
Net book amounts					
At 31 December 2000	977	65	255	256	1,553
At 31 December 2001					
- valuation	775	-	-	-	775
- cost	1,307	412	856	555	3,130
- accumulated depreciation	(750)	(355)	(629)	(322)	(2,056)
	1,332	57	227	233	1,849

Land and buildings of the parent company were revalued on an existing use basis (except for certain land which was valued at open market value) by D Rainey & Sons M.I.A.V.I. at 31 December 1988. The surplus arising on the revaluation has been taken to revaluation reserve (note 19).



9 Tangible assets - continued

The estimated useful lives of tangible assets by reference to which depreciation has been calculated are as follows:

Buildings	4 - 20 years
Plant	10 years
Fixtures and fittings	4 - 10 years
Motor vehicles	4 years
Tankers and trailers	6 years

Freehold land and buildings would have been stated as follows under the historical cost convention:

	Group	Company
At 31 December 2001	€'000	€'000
Cost	11,377	2,314
Accumulated depreciation	(2,024)	(1,090)
	9,353	1,224

NOTES TO THE FINANCIAL STATEMENTS continued

10 Financial assets

	Associate undertakings	Loan stock in joint venture	Joint ventures	Listed shares	Unlisted shares	Prize bonds	Investment property	Other milk quota	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Group									
At 31 December 2000	1,063	4,979	286	30	98	100	4,398	154	11,108
Additions	-	238	-	-	239	-	60	-	537
Reclassification	(1,142)	-	-	-	-	-	-	45	(1,097)
Provision made during year	-	-		-	(239)	-	-	-	(239)
Share of increase/(decrease) in net assets	79	-	(273)	-	-	-	-	-	(194)
Disposals	-	-		-	-	-	-	-	-
At 31 December 2001	-	5,217	13	30	98	100	4,458	199	10,115

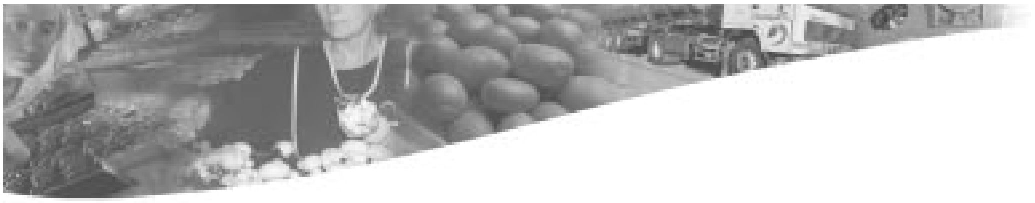
Cost	12,042
Provision	(1,927)
	10,115

The group's share of net assets, together with goodwill, arising on its investment in Carbury Mushrooms Limited was as follows:

	€'000
Goodwill on acquisition	2,627
Tangible Fixed assets	6,532
Financial assets	117
Current assets	4,983
Liabilities due within one year	(7,373)
Liabilities due after one year	(6,873)
	13

	Subsidiary companies	Listed shares	Unlisted shares			Loan stock in joint venture	Prize bonds	Investment property	Total
			Associate undertakings	Joint ventures	Other interests				
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Company									
At 31 December 2000	3,524	22	170	1,834	52	4,979	100	4,398	15,079
Additions	550	-	-	-	239	238	-	60	1,087
Reclassification	170	-	(170)	-	-	-	-	-	-
Provision made during year	-	-	-	-	(239)	-	-	-	(239)
Disposals	-	-	-	-	-	-	-	-	-
At 31 December 2001	4,244	22	-	1,834	52	5,217	100	4,458	15,927

Cost	19,213
Provision	(3,286)
	15,927



NOTES TO THE FINANCIAL STATEMENTS continued

10 Financial assets - continued

Group

The group increased its shareholding in McCorkell Holdings Limited from 50% to 75% on 24 October 2001 at a cost of €547,000. The fair value of the assets acquired was considered to be similar to their book value. The consideration paid exceeded the fair value of the assets acquired by €7,000, which has been added to goodwill.

The cumulative provision against financial assets at 31 December 2001 of €1,927,000 (2000: €1,689,000) is against the carrying value of unlisted shares, €1,800,000 (2000: €1,562,000) and milk quotas €127,000 (2000: €127,000).

The market value of the listed shares at 31 December 2001 was €32,000(2000: €38,000). In the opinion of the directors, the value to Donegal Creameries plc of the unlisted shares is not less than the value shown above. The listed shares are listed on recognised stock exchanges.

Group and company

The investment property represents a farm, An Grianán, acquired by the company in 1996.

Company

The cumulative provision at 31 December 2001 of €3,286,000 (2000: €3,047,000) is against the carrying value of subsidiaries, €1,486,000 (2000: €1,486,000) and unlisted shares, €1,800,000 (2000: €1,561,000).

11 Goodwill

	Positive goodwill €'000	Negative goodwill €'000	Total €'000
Group			
Goodwill arising on acquisitions:			
At 31 December 2000	3,028	(922)	2,106
On acquisition of McCorkell Holdings Limited	7	-	7
Additional consideration payable re acquisition of stores from Lakeland Agricare	65	-	65
Translation adjustment	18	-	18
At 31 December 2001	3,118	(922)	2,196
Released to profit and loss account:			
At 31 December 2000	86	(85)	1
Translation adjustment	1	-	1
Amortised during the year	154	(42)	112
At 31 December 2001	241	(127)	114
Net book amount:			
At 31 December 2000	2,942	(837)	2,105
At 31 December 2001	2,877	(795)	2,082

Goodwill is amortised to the profit and loss account over 20 years.

NOTES TO THE FINANCIAL STATEMENTS continued

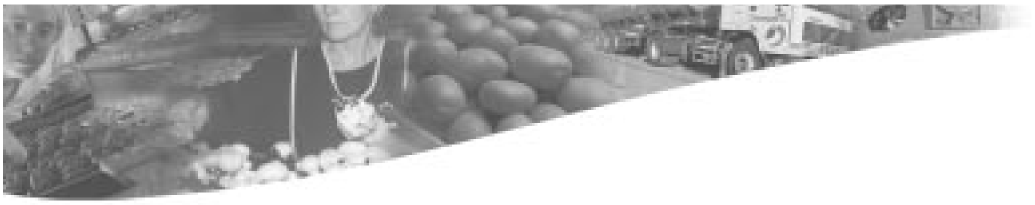
12 Stocks

	2001 €'000	2000 €'000
Group		
Dairy	-	95
Store, including animal feeds	5,557	5,695
Confectionery	447	447
Packaging and other stocks	2,756	1,976
	8,760	8,213
Company		
Store	3,554	3,513
Expense stocks	28	131
	3,582	3,644

The estimated replacement cost of stocks is not materially different from the above amounts.

13 Debtors

	2001 €'000	2000 €'000
Group		
Trade debtors	27,204	24,132
Other debtors	566	761
Prepayments and accrued income	4,169	3,186
Value added tax	586	514
Amounts owed by associated undertakings	1,156	588
Amount owed by joint venture company	-	405
	33,681	29,586
Corporation tax recoverable	-	-
	33,681	29,586
Amount falling due after more than one year included above:	-	-
Company		
Trade debtors	8,490	6,896
Other debtors	64	95
Prepayments and accrued income	680	387
Value added tax	341	95
Amounts owed by subsidiary undertakings	6,073	4,974
Amounts owed by associated undertakings	1,155	588
Amount owed by joint venture company	-	405
	16,803	13,440
Amount falling due after more than one year included above:	-	-



14 Creditors - Amounts falling due within one year

	2001 €'000	2000 €'000
Group		
Trade creditors	17,258	15,210
Other creditors and accruals	4,549	5,544
Income tax deducted under PAYE	80	114
Pay-related social insurance	87	93
Value added tax	329	264
	22,303	21,225
Consideration payable re acquisition of trade of Winston Patterson Limited	-	1,016
Deferred consideration on acquisition of subsidiaries and joint venture (note 15[1])	1,960	526
Capital grants deferred	5	5
Finance leases	19	14
Bank loans and overdrafts	8,622	8,959
Dividends proposed	821	755
Dividends payable to minority interest	-	4
Share capital in subsidiary undertaking [1]	666	-
Corporation tax	594	1,137
	34,990	33,641
Creditors for taxation and social welfare included above	1,089	1,608

[1]The share capital in subsidiary undertaking was issued on 6 March 1997 and may be repurchased by the subsidiary, at the option of the subsidiary or the request of the shareholder, between five and twenty five years from issue. The maximum amount that shall be paid for these shares has been agreed at €666,612.

	2001 €'000	2000 €'000
Company		
Trade creditors	5,472	4,981
Bank loans	3,810	-
Amounts due to subsidiary undertakings	28,738	19,285
Other creditors and accruals	1,237	1,147
Deferred consideration on acquisition of subsidiaries and joint venture (note 15 [1])	1,960	526
Dividends proposed	820	755
Income tax deducted under PAYE	35	58
Pay-related social insurance	42	42
Corporation tax	54	-
	42,168	26,794
Creditors for taxation and social welfare included above	131	100

The bank loans are secured by cross guarantees from other group companies.

NOTES TO THE FINANCIAL STATEMENTS continued

		2001 €'000	2000 €'000
15	Creditors - Amounts falling due after one year		
	Group		
	Bank Loans	7,618	-
	Deferred consideration on acquisition of subsidiaries and joint venture (1)	121	1,845
	Capital grants deferred	43	57
	Share capital in subsidiary undertaking (2)	-	653
	Finance leases	26	21
		7,808	2,576
	Company		
	Bank loans	7,618	-
	Deferred consideration on acquisition of subsidiaries and joint venture (1)	121	1,845
		7,739	1,845

(1) On 12 February 1999, the company entered into an agreement for the purchase of 76% of the ordinary share capital of Wm McKinney and Sons Limited. €272,000 of the purchase consideration was unpaid at 31 December 2001 and was due for payment as follows:

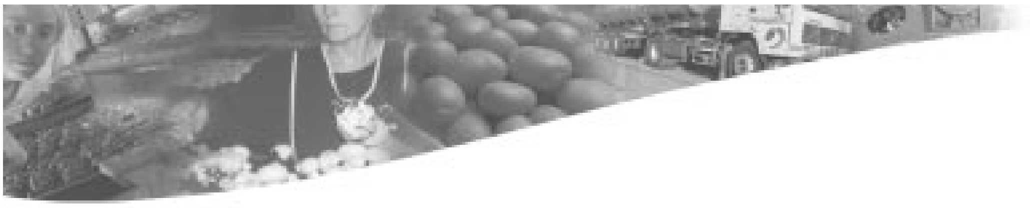
	2001 €'000	2000 €'000
Due within one year	121	180
Due between one and two years	151	121
Due between two and five years	-	151
	272	452

On 10 September 1999, the company entered into an agreement for the purchase of a 52.5% interest in Carbury Mushrooms Limited (formerly Bendory Limited). 40% of the shares were purchased on that date and the sale agreement provides for the purchase of the remaining 12.5% interest between three and five years from the date of the agreement. The consideration payable in respect of the 12.5% interest is fixed at €1,904,607.

(2) The share capital in subsidiary undertaking was issued on 6 March 1997 and may be repurchased by the subsidiary, at the option of the subsidiary or the request of the shareholder, between five and twenty five years from issue. The maximum amount that shall be paid for these shares has been agreed at €666,612.

		2001 €'000	2000 €'000
16	Provision for liabilities and charges		
	Group		
	Deferred taxation		
	On accelerated capital allowances	645	334

	€'000
At 31 December 2000	334
Transfer to profit and loss account (note 6)	311
At 31 December 2001	645



NOTES TO THE FINANCIAL STATEMENTS continued

16 Provision for liabilities and charges - continued

	2001 €'000	2000 €'000
Company:		
Deferred taxation		
On accelerated capital allowances	64	51

Full provision has been made for deferred taxation as it is expected that the relevant corporation tax will become payable in the foreseeable future.

17 Share capital

	2001 €'000	2000 €'000
Authorised		
50,000,000 (2000: 50,000,000) ordinary shares of 13 cents (2000:IR10p) each	6,500	6,349
Allotted and fully paid		
10,034,990 (2000: 10,034,990) ordinary shares of 13 cents (2000:IR10p) each	1,304	1,274

During the year, in accordance with the Economic and Monetary Union Act, 1998, the share capital was redenominated into euro and the nominal value was renominalised to 13 cents. Consequently, the allotted and fully paid share capital was increased by €30,000 and that amount was transferred from the profit and loss account.

There are options outstanding in respect of 366,590 ordinary shares of 13 cents each at 31 December 2001 (2000: 366,590). This figure includes options over 240,000 shares which can only be exercised after the expiration of three years from the date of grant of the options and after specific EPS growth targets have been achieved.

The option prices range from 13 cents to €2.10 per ordinary share.

18 Share premium

	€'000
Group and company	
At 31 December 2000 and 31 December 2001	2,546

19 Reserves

	Revaluation reserve €'000	Reserve on acquisition €'000	Other reserves €'000	Profit and loss account €'000
Group				
At 31 December 2000	312	293	189	24,540
Profit for year	-	-	-	4,006
Dividends	-	-	-	(1,074)
Transfer to share capital (note 17)	-	-	-	(30)
Translation adjustment	-	-	-	(23)
At 31 December 2001	312	293	189	27,419
Company				
At 31 December 2000	155	-	189	1,447
Profit for year	-	-	-	469
Dividends	-	-	-	(1,074)
Transfer to share capital (note 17)	-	-	-	(30)
At 31 December 2001	155	-	189	812

NOTES TO THE FINANCIAL STATEMENTS continued

19 Reserves - continued

The revaluation reserve arises from the revaluation of land and buildings. No provision has been made for any tax liability that may arise if these assets were disposed of at their revalued amount.

Other reserves of €188,749 are non distributable as they are not available for distribution until such time as the contingent liability (see note 23) to repay capital grants, received from the Industrial Development Authority, has expired.

Profits available for distribution are restricted by €129,110 (2000: €129,110), being the cost of shares in Donegal Creameries plc held by the group.

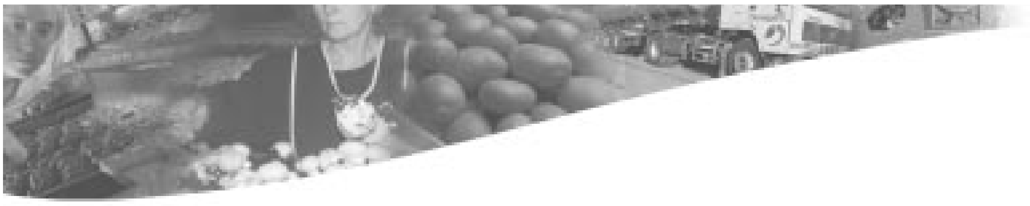
As permitted by Section 3(2) of the Companies (Amendment) Act, 1986 a profit and loss account in respect of the parent company is not shown. A profit after tax of €469,000 (2000: loss after tax of €535,000) relating to the parent company is included in the group profit and loss account.

20 Reconciliation of movements in equity shareholders' funds

	2001 €'000	2000 €'000
Profit for the financial year	4,006	4,868
Dividends	(1,074)	(1,010)
	2,932	3,858
Translation adjustment	(23)	2
Adjustment to Robert Smyth & Sons purchase consideration	-	(187)
Net addition to shareholders' funds	2,909	3,673
Opening shareholders' funds	29,154	25,481
Closing shareholders' funds	32,063	29,154

21 Minority interests in subsidiaries

	2001 €'000	2000 €'000
Equity:		
At 31 December 2000	730	674
Share of profit for the year	96	74
Less share of minority interest in joint venture	(18)	(18)
Acquisition of Mc Corkell Holdings Limited	560	-
At 31 December 2001	1,368	730



22 Financial instruments

The board is conscious of the financial risks inherent in the group's activities denominated in foreign currencies, principally sterling, and the interest rate risk associated with the group's borrowings. The foreign exchange risks are considered in consultation with the group's treasury providers and forward currency contracts are sometimes used. While the interest rate risk is considered in consultation with the group's treasury providers, the group has maintained its bank borrowings at floating rates in the past.

The group has taken advantage of the exemption provided by Financial Reporting Standard 13 and has not included short term debtors and creditors within notes (a), (c) and (e) below.

(a) Interest rate risk profile of financial assets and liabilities

	2001 €'000	2000 €'000
The Group's financial assets, as defined by Financial Reporting Standard 13, comprise:		
Listed shares	30	30
Unlisted shares	98	98
	128	128

The interest rate profile of these financial assets was as follows:

	2001		2000	
Currency	Total €'000	Equity shares €'000	Total €'000	Equity shares €'000
Euro	128	128	128	128

The Group's financial liabilities, as defined by Financial Reporting Standard 13, comprise:

	Notes	2001 €'000	2000 €'000
Finance leases	14, 15	45	35
Share capital in subsidiary undertaking	14, 15	666	653
Bank Loans and overdrafts	14, 15	16,240	8,959
Deferred consideration on acquisition of subsidiaries and joint venture	14, 15	2,081	2,371
Total		19,032	12,018

NOTES TO THE FINANCIAL STATEMENTS continued

22 Financial instruments - continued

(a) Interest rate risk profile of financial assets and liabilities - continued

After taking account of forward currency contracts, the interest rate profile of these financial liabilities was as follows:

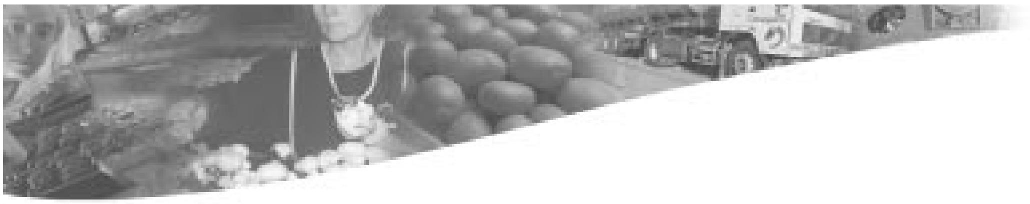
31 December 2001:

	Total €'000	Floating rate financial liabilities €'000	Fixed rate financial liabilities €'000	Financial liabilities on which no interest is paid €'000
Currency				
Euro	15,814	13,022	2,792	-
Sterling	3,218	3,218	-	-
Total	19,032	16,240	2,792	-

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
Euro	4.33	0.58	N/A

31 December 2000:

	Total €'000	Floating rate financial liabilities €'000	Fixed rate financial liabilities €'000	Financial liabilities on which no interest is paid €'000
Currency				
Euro	7,389	4,330	2,862	197
Sterling	4,629	4,629	-	-
Total	12,018	8,959	2,862	197



22 Financial instruments - continued

(a) Interest rate risk profile of financial assets and liabilities - continued

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
Euro	4.41	1.48	0.2

The floating rate financial liabilities comprise:

- Euro denominated overdrafts that bear interest at EURIBOR rates.
- Sterling denominated overdrafts that bear interest at UK base rates.

(b) Currency exposures

The table below shows the Group's currency exposures; i.e. those transactional (or non-structural) exposures that give rise to net currency gains or losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved. The table includes the effect of forward currency contracts taken out to manage these currency exposures. As at 31 December 2001 these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				
	Euro €'000	Sterling €'000	US Dollar €'000	Other €'000	Total €'000
Functional currency of group operation					
Euro	-	(376)	70	-	(306)
Sterling	(2,419)	-	-	-	(2,419)
Total	(2,419)	(376)	70	-	(2,725)

	Net foreign currency monetary assets/(liabilities)				
31 December 2000:	Euro €'000	Sterling €'000	US Dollar €'000	Other €'000	Total €'000
Functional currency of group operation					
Euro	-	947	118	60	1,125
Sterling	(1,140)	-	-	-	(1,140)
Total	(1,140)	947	118	60	(15)

NOTES TO THE FINANCIAL STATEMENTS continued

22 Financial instruments - continued

(c) Maturity of financial liabilities

The maturity profile of the group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 31 December 2001 was as follows:

	2001 €'000	2000 €'000
In one year or less or on demand	11,267	9,499
In more than one year but not more than two years	147	2,396
In more than two years but not more than five years	7,618	123
	19,032	12,018

(d) Borrowing facilities

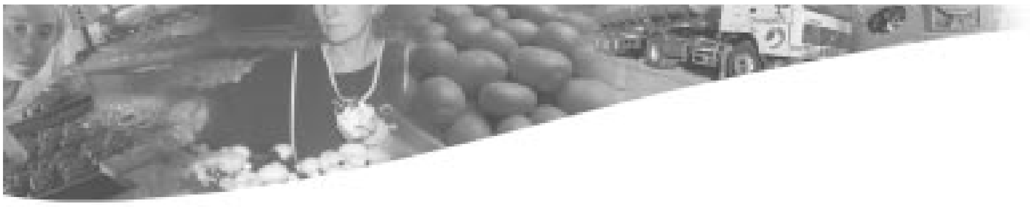
There were no undrawn committed borrowing facilities at 31 December 2001 (2000: None).

(e) Fair value of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and liabilities as at 31 December 2001:

	2001		2000	
	Book value €'000	Fair value €'000	Book value €'000	Fair value €'000
Primary financial instruments held or issued to finance the Group's operations:				
Listed and unlisted shares (note 10)	128	130	128	136
Overdrafts and short-term borrowings (note 14)	(8,622)	(8,622)	(8,959)	(8,959)
Long-term borrowings (note 15)	(7,618)	(7,618)	-	-
Finance leases (notes 14 and 15)	(45)	(45)	(35)	(35)
Deferred consideration on acquisition of subsidiaries and joint venture (notes 14 and 15)	(2,081)	(2,081)	(2,371)	(2,371)
Share capital in subsidiary undertaking (notes 14 and 15)	(666)	(666)	(653)	(653)
Derivative financial instruments held to hedge the currency exposure on sales				
Forward currency contracts	-	(135)	-	(75)

As a result of their short maturity there is no material difference between the book and fair value of overdrafts and short term borrowings. The fair values of all other items are their market values, where appropriate, or have been calculated by discounting future cash flows at prevailing interest rates.



NOTES TO THE FINANCIAL STATEMENTS continued

22 Financial instruments - continued

(f) Gains and losses on hedging contracts

Gains and losses on hedging instruments which were unrecognised at 31 December 2001 are set out below:

	Gains €'000	Losses €'000	Total net gains/(losses) €'000
Unrecognised gains and losses on hedges at 1 January 2001	-	(75)	(75)
Gains and losses arising in previous years that were recognised in 2001	-	(75)	(75)
	-	-	-
Gains and losses arising in 2001 that were not recognised in 2001	-	(135)	(135)
Unrecognised gains and losses on hedges at 31 December 2001	-	(135)	(135)
Of which:			
Gains and losses expected to be recognised in 2002	-	(69)	(69)
Gains and losses expected to be recognised in 2003 or later	-	(66)	(66)

	Gains €'000	Losses €'000	Total net gains/(losses) €'000
Unrecognised gains and losses on hedges at 1 January 2000	-	-	-
Gains and losses arising in previous years that were recognised in 2000	-	-	-
	-	-	-
Gains and losses arising in 2000 that were not recognised in 2000	-	(75)	(75)
Unrecognised gains and losses on hedges at 31 December 2000	-	(75)	(75)
Of which:			
Gains and losses expected to be recognised in 2001	-	(75)	(75)
Gains and losses expected to be recognised in 2002 or later	-	-	-

NOTES TO THE FINANCIAL STATEMENTS continued

23 Contingent liabilities

Group and company

Under agreements between the group and the Industrial Development Authority, capital grants up to a maximum of €730,000 (2000: €730,000) could become repayable in certain circumstances as set out in the agreements.

Company

The company has guaranteed bank borrowings of Carbury Mushrooms Limited of €1,271,000 (2000: nil).

The company has guaranteed the bank borrowings of certain subsidiaries. At 31 December 2001 these borrowings amounted to €23,812,000.

24 Directors' remuneration and interests in shares

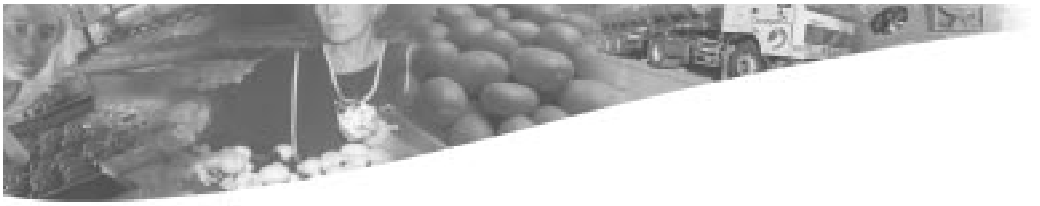
Directors' remuneration (including pensions) and interests in shares (including share options) are listed on pages 15 to 17 in the report of the remuneration committee.

25 Employees

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

	2001 Number	2000 Number
Production	129	122
Stores	99	87
Transport	41	31
Administration	66	64
	335	304

	2001 €'000	2000 €'000
Staff costs are comprised of:		
- wages and salaries	7,923	6,247
- social welfare costs	817	620
- other pension costs	492	418
	9,232	7,285



NOTES TO THE FINANCIAL STATEMENTS continued

26 Pensions

The pension entitlements of most employees arise under defined benefit pension schemes and are secured by contributions by the group to separately administered pension funds. Annual contributions are based on the advice of a professionally qualified actuary on the basis of triennial valuations using the attained age method and are charged to the profit and loss account on an accruals basis.

On the basis of the latest actuarial valuations prior to the year end, which were carried out as at 1 February 1999, 1 January 2000, 1 April 2000 or 1 April 2001 the market value of the schemes' assets was €6,601,000 (2000: €6,016,000) and the actuarial value of those assets represented in aggregate 110% (2000: 106%) of the benefits that had accrued to members allowing for future increases in pensionable earnings. The principal actuarial assumption adopted in the valuations was that, over the long term, the annual rate of return on investments would be 2% higher than the annual increase in pensionable remuneration. The pension cost charged to the profit and loss account in respect of defined benefit pension schemes was €418,000(2000: €355,000). The actuarial reports are not available for public inspection.

Contributions to the schemes will continue at the actuary's recommended rate, and the variation from regular cost will be charged over the average expected remaining service lives of employees as a fixed percentage of expected future pay.

The pension entitlements of employees of three of the subsidiaries arise under defined contribution schemes. The assets of the schemes are held separately from those of the companies in independently administered funds. The pension cost charge represents contributions payable by the companies to the funds and totalled €74,000 (2000: €63,000).

Financial Reporting Standard 17 – Retirement Benefits

A new accounting standard, Financial Reporting Standard 17 – Retirement Benefits (FRS 17) was issued by the Accounting Standards Board in November 2000 which represents a significant change in the method of accounting for pension costs compared with the previous rules as set out in SSAP 24. The new accounting rules prescribed by FRS 17 do not become mandatory for the group until 2003 and, while early adoption is permitted, the group has elected to avail of the transitional provisions outlined in the standard, which for 2001, permit the use of SSAP 24 regulations for determining pension cost but require additional disclosure of the balance sheet impact of the adoption of FRS 17 as at 31 December 2001.

The group operates several defined benefit schemes. The full actuarial valuations carried out as outlined above were updated to 31 December 2001 for FRS 17 disclosure purposes by a qualified independent actuary. The main financial assumptions used in the valuations were:

Rate of increase in salaries	3.75 - 4.5	%
Rate of increase in pensions in payment	3.0 - 5.0	%
Discount rate	5.75 - 6.0	%
Inflation assumption	2.0 - 4.0	%

NOTES TO THE FINANCIAL STATEMENTS continued

26 Pensions - continued

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

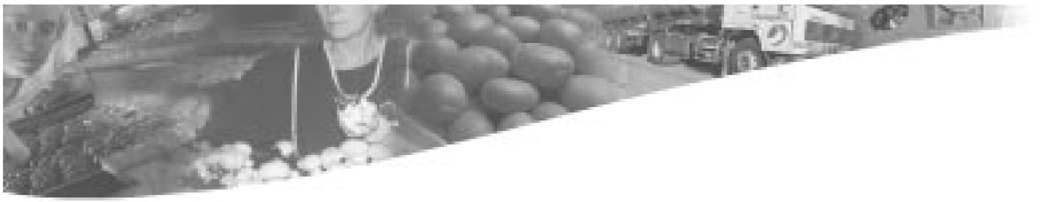
	Long-term rate of return expected at 31 December 2001	Market value at 31 December 2001 €'000
Equities and property	7.5 %	3,157
Bonds	5.5 %	1,714
Managed funds	8.0 %	3,384
Other	4.7 %	298
		8,553

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS 17:

	€'000
Total market value of assets	8,553
Present value of scheme liabilities	(7,864)
Surplus in the scheme	689
Related deferred tax liability	(86)
Net pension asset	603

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	€'000
Net assets excluding pension asset	33,431
Pension asset	603
Net assets including pension asset	34,034
Profit and loss reserve excluding pension asset	27,419
Pension asset	603
Profit and loss reserve including pension asset	28,022



NOTES TO THE FINANCIAL STATEMENTS continued

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

	2001 €'000	2000 €'000
Operating profit	4,393	3,315
Depreciation	2,161	1,707
Amortisation of goodwill	112	17
Provision against financial assets	239	187
Capital grants amortised	(15)	(52)
Increase in working capital (note 28)	(2,409)	(1,492)
Exchange rate movements	(189)	5
Net cash inflow from operating activities	4,292	3,687

28 Changes in working capital

	Stocks €'000	Debtors €'000	Creditors €'000	Total €'000
At 1 January 2001	8,213	29,586	(21,225)	16,574
Capital debtors/creditors	-	246	28	274
Investment disposal proceeds receivable	-	392	(239)	153
Acquisition of subsidiary	-	1,153	(595)	558
Foreign exchange	80	38	52	170
(Decrease)/increase in working capital	467	2,266	(324)	2,409
At 31 December 2001	8,760	33,681	(22,303)	20,138
Prior year movement	935	4,859	(4,302)	1,492

29 Reconciliation of net cash flow to movement in net cash/(debt)

	2001 €'000	2000 €'000
Increase/(decrease) in cash	4,622	(3,981)
Cash (inflow)/outflow from (increase)/decrease in debt	(11,400)	41
Change in net cash resulting from cash flows	(6,778)	(3,940)
Acquisition of subsidiary	290	
Non-cash changes	(51)	(14)
Exchange rate movements	(82)	-
Movement in net debt in the year	(6,621)	(3,954)
Net debt at beginning of year	(9,647)	(5,693)
Net debt at end of year	(16,268)	(9,647)

NOTES TO THE FINANCIAL STATEMENTS continued

30 Analysis of net debt

	At 1 January 2001 €'000	Acquisition of Subsidiary €'000	Cash Flow €'000	Foreign Exchange €'000	Non cash changes €'000	At 31 December 2001 €'000
Cash at bank and in hand	-	290	393	-	-	683
Overdrafts	(8,959)	-	4,229	(82)	-	(4,812)
	(8,959)	290	4,622	(82)	-	(4,129)
Bank loans due within 1 year	-	-	(3,810)	-	-	(3,810)
Bank loans due after 1 year	-	-	(7,618)	-	-	(7,618)
	-	-	(11,428)	-	-	(11,428)
Share capital in subsidiary undertaking	(653)	-	-	-	(13)	(666)
Finance leases	(35)	-	28	-	(38)	(45)
	(9,647)	290	(6,778)	(82)	(51)	(16,268)

31 Related party transactions

In the ordinary course of their business as farmers, directors have traded on standard commercial terms with the group. Aggregate purchases from, and sales to, these directors amounted to €2,752,000 (2000: €2,048,000) and €1,002,000 (2000: €590,000), respectively.

The aggregate amounts owed to the directors, and by the directors, in respect of these transactions at 31 December 2001 was €103,000 (2000: €98,000) and €359,000 (2000: €253,000) respectively.

The group holds loan stock of €5,217,000 (2000: €4,979,000) in Carbury Mushrooms Limited, formerly Bendory Limited, a joint venture undertaking between Donegal Creameries Plc and Connacht Gold Co-Operative Society Limited. Income of €362,000(2000: €310,000) was receivable on this loan stock during the year.

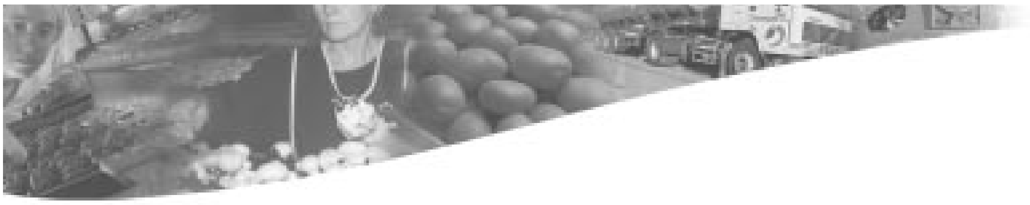
Donra Dairies Limited, an associate undertaking, purchased goods on standard commercial terms from the group during the year amounting to €2,241,000 (2000: €1,663,000).

McCorkell Holdings Limited, an associate undertaking until 24 October 2001 and a 75% subsidiary from that date , sold goods and services on standard commercial terms to the group during the year amounting to €2,209,000 (2000: €523,000).

32 Future capital expenditure not provided for

At the year end capital commitments authorised by the directors and not provided for in the financial statements were as follows:-

	2001 €'000	2000 €'000
Authorised but not contracted for	-	4,190
Contracted but not provided for	212	-



NOTES TO THE FINANCIAL STATEMENTS continued

33 Principal interests in subsidiary and associated undertakings

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Subsidiary undertakings			
Incorporated in the Republic of Ireland:			
Glenveagh Agricultural Co-Operative Society Limited	Intake and processing of milk	99.5%	100,500 ordinary shares of IR£1 each (477 unpaid)
Robert Smyth & Sons (Strabane & Donegal) Limited Ballindrait	Manufacture of animal feed compounds	100%	324,168 ordinary shares of IR£1 each
Lifford Co Donegal		0%	337,400 'A' ordinary shares of IR£1 each
Comharchuman Gaeltacht Lár Tír Chonaill Teoranta	Selling of agricultural and dairy products	54.1%	47,073 ordinary shares of IR£1 each
Donegal Dairy Products Limited	Non-trading	100%	384,996 ordinary shares of IR£1 each
Asian Paneer (Ireland) Limited (through Donegal Dairy Products Limited)	Non-trading	75%	29,915 ordinary shares of IR£1 each
North Donegal Co-Operative Enterprises Limited	Non-trading	56.6%	26,500 ordinary shares of IR£1 each
Irish Potato Marketing Limited Unit 1, Loughlinstown Centre Loughlinstown, Dun Laoire, Co. Dublin	Development, marketing and sale of seed potatoes	100%	8 "A" Ordinary shares IR£1 each
Donegal Potatoes Limited (through Irish Potato Marketing Limited) Colehill, Newtowncunningham, Co Donegal	Grading and storage of potatoes and sack printing	100%	120,000 ordinary shares of IR£1 each
Wm Mc Kinney and Sons Limited Ramelton Road, Letterkenny, Co Donegal	Confectionery manufacture	76%	323,750 ordinary shares of IR£1 each
		0%	15,000 preference shares of IR£1 each

The registered office of the above companies is Ballyraine, Letterkenny, Co Donegal, except where otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS continued

34 Principal interests in subsidiary and associated undertakings - continued

Subsidiary undertakings - continued

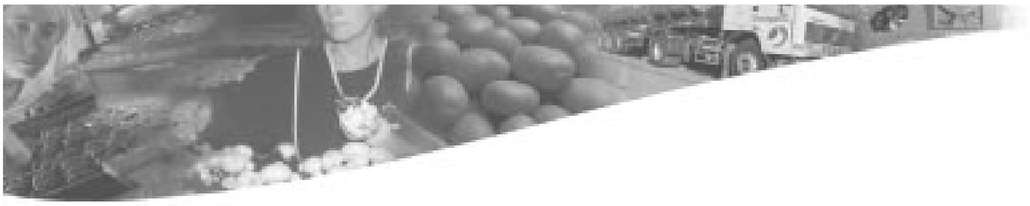
Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in Northern Ireland:			
Maybrook Dairy Limited	Non-trading	100%	683,655 ordinary 'A' shares of Stg£1 each
		100%	227,885 ordinary 'B' shares of Stg£1 each
Euro-Agri Limited	Selling of agricultural inputs	100%	50,000 ordinary shares of Stg£1 each
Estuary Trading Limited	Agent for Donegal Creameries plc in Northern Ireland	100%	1,000 ordinary shares of Stg£1 each
Maybrook Dairy (Omagh) Limited	Selling of agricultural and dairy products	100%	1,000 ordinary shares of Stg£1 each
McCorkell Holdings Limited Fanum House 108 Great Victoria Street Belfast BT2 7AX	Stevedoring	75%	923,652 ordinary shares of Stg£1 each

The registered office of the above companies is 14A Dromore Road, Omagh, Co. Tyrone, except where otherwise stated.

Incorporated in the United Kingdom:			
IPM Perth Limited East Den Brae, Letham, Angus DD8 2PJ, Scotland	Non-trading	100%	2 ordinary shares of Stg£1 each

Joint venture undertakings

Incorporated in the Republic of Ireland:			
Carbury Mushrooms Limited (formerly Bendory Limited) 30 Herbert Street Dublin 2	Mushroom marketing and compost production	100%	40,000 'A' ordinary shares of IR£1.50 each
		0%	26,300 'B' ordinary shares of IR£1.50each
		100%	12,500 'C' ordinary shares of IR£1.50each
		0%	12,500 'D' ordinary shares of IR£1.50 each
		0%	8,700 'E' ordinary shares of IR£1.50 each



33 Principal interests in subsidiary and associated undertakings - continued

Associated undertakings:

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in the Republic of Ireland:			
Donra Dairies Limited Ballyraine Letterkenny Co Donegal	Distribution of long life milk	50%	2 ordinary shares of IR£1 each

The results of all subsidiary, joint venture and associated undertakings have been included within the group financial statements. All companies operate primarily in their country of incorporation. The percentage shareholdings stated above also reflect the group's voting rights for each class of share except in the case of Glenveagh Agricultural Co-Operative Society Limited, where the group and each of the other 500 shareholders have one vote each and Carbury Mushrooms Limited where the group holds 0% of the voting rights on the 'C' ordinary shares. Donegal Creameries plc has call options, exercisable at its absolute discretion, over the ordinary shares in Glenveagh Agricultural Co-Operative Society Limited not already owned by it.

34 Approval of financial statements

The directors approved the financial statements on 29 May 2002.

GROUP FINANCIAL SUMMARY

	2001 €'000	2000 €'000	1999 €'000	1998 €'000	1997 €'000
Profit and loss account					
Turnover	139,419	125,930	99,982	73,763	64,283
Operating profit	4,393	3,315	2,837	2,683	2,278
Profit on disposal of fixed assets	85	223	344	84	229
Profit on disposal of investments	601	580	102	658	-
Share of results of joint venture	862	1,152	606	-	-
Share of results of associates	79	42	89	(273)	(38)
Income from financial assets	846	834	753	721	763
Interest receivable	14	53	37	159	80
Interest payable	(1,502)	(1,146)	(377)	(77)	(132)
Profit before tax and exceptional items	5,378	5,053	4,391	3,955	3,180
Profit on disposal of fixed assets destroyed by fire	-	3,244	-	-	-
Share of joint venture's exceptional losses	(304)	(2,082)	-	-	-
Profit before tax	5,074	6,215	4,391	3,955	3,180
Tax	(972)	(1,273)	(630)	(660)	(493)
Profit after tax	4,102	4,942	3,761	3,295	2,687
Minority interest	(96)	(74)	(66)	-	-
Dividends	(1,074)	(1,010)	(879)	(681)	(521)
Profit retained	2,932	3,858	2,816	2,614	2,166
Balance sheet					
Tangible fixed assets	21,553	15,423	9,747	7,733	7,129
Financial fixed assets	10,102	10,822	11,560	7,034	6,997
Investments in joint venture	13	286	2,057	-	-
Intangible assets	2,082	2,105	(128)	-	-
Net current assets	8,134	4,158	5,812	9,368	7,455
	41,884	32,794	29,048	24,135	21,581
Creditors due after one year	(7,808)	(2,576)	(2,819)	(1,271)	(1,408)
Deferred tax	(645)	(334)	(74)	(86)	(44)
Minority interests	(1,368)	(730)	(674)	(1)	(1)
Shareholders' funds	32,063	29,154	25,481	22,777	20,128
Depreciation (€'000)	2,161	1,707	1,489	1,185	929
Earnings per share (cents)	40.4	49.0	37.2	33.3	32.0
Earnings per share excluding exceptional items (cents)	43.4	41.7	37.2	33.3	32.0
Dividends per share (cents)	10.8	10.2	8.9	6.9	5.7
Dividend cover (times)	3.7	4.8	4.2	4.9	5.2