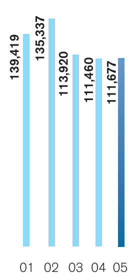
Donegal

DONEGAL CREAMERIES plc
Annual Report & Financial Statements 2005

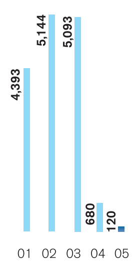
CONTENTS

FINANCIAL HIGHLIGHTS

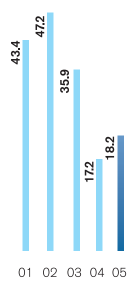
	2005 €'000	2004 €'000 (Restated)	Increase/ (Decrease)%
Turnover	**111,677**	111,460	0.2%
Operating profit	**120**	680	(82.4%)
Profit before tax	**3,598**	2,190	64.3%
Profit after tax	**2,006**	1,905	5.3%
Cash flow	**6,716**	(11,866)	156.6%
Earnings per share	**18.2c**	17.2c	5.8%
Dividend per share	**12c**	12c	0%
Net asset value per share (excluding minority interest)	**€5.35**	€3.92	36.5%



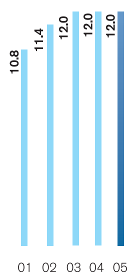
TURNOVER
(€'000)



OPERATING PROFIT
(€'000)

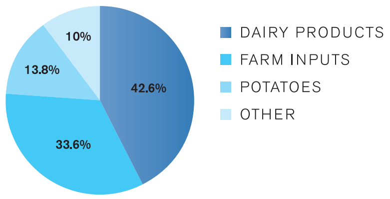


EARNINGS PER SHARE
(CENTS)

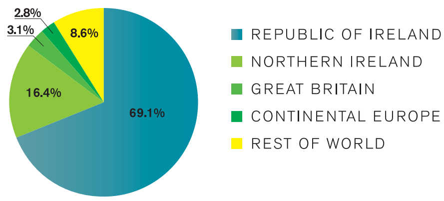


DIVIDENDS PER SHARE
(CENTS)

TURNOVER BY CLASS OF BUSINESS



GEOGRAPHICAL DESTINATION OF TURNOVER



DIRECTORS & OTHER INFORMATION

01. L Tinney
02. I Ireland
03. F Devenney
04. M McNulty
05. G Vance
06. N Witherow
07. F Browne
08. D Callaghan
09. M Robinson
10. R Rankin
11. S Gallagher
12. E Kerr
13. P J Kelly

Secretary and registered office

T Hanlon
Ballyraine
Letterkenny
Co Donegal

Independent auditors

KPMG
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2

Solicitors

VP McMullin & Son
Letterkenny
Co Donegal

Matheson Ormbsy Prentice
30 Herbert Street
Dublin 2

Principal Bankers

Ulster Bank Limited
Letterkenny
Co Donegal

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 67) 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.

Ivan Grier (aged 61) is Vice Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is also a director of North Western Livestock Holdings Limited.

Francis Devenney (aged 60) 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.

Patrick Kelly (aged 61) 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 also a director of North Western Livestock Holdings Limited

14. I Grier
15. P Kelly
16. C Tindal
17. B Byrne
18. R Russell
19. M Reid
20. J Moody
21. I Bates
22. G McClay
23. D Sweeney
24. E Moore
25. J Hamilton
26. T Hanlon

Matt McNulty (aged 60) 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 69) 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.

Geoffrey Vance (aged 55) 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, S Gallagher, E Kerr, G McClay, J Moody, E Moore, R Rankin, M Robinson, R Russell, M Reid, J. Hamilton, N Witherow, D Sweeney and P J Kelly.

Executive Directors

Ian Ireland (Managing Director), BSC, MBA (aged 44) joined Donegal Creameries plc in January 2005. Prior to that he had spent over 20 years working in the food industry in Ireland and the UK.

Tony Hanlon (Finance Director and Company Secretary), B.Comm, FCA (aged 42) joined Donegal Creameries plc in January 2006. He has 20 years experience as an accountant in the manufacturing and distribution sectors in Ireland.

CHAIRMAN'S STATEMENT

LEXIE TINNEY CHAIRMAN

Profit before tax increased to €3.6 million from €2.2 million

Donegal Creameries plc announces its financial results for the year ended 31 December 2005.

In 2005 turnover from continuing operations increased marginally from €111.5 to €111.7 million. Profit before tax increased to €3.6 million from €2.2 million, an increase of 64% helped by a gain of €3.9 million on disposal of financial investments. Operating profit declined from €0.7m to €0.1m. The taxation charge increased significantly from €0.3 million to €1.6 million caused by tax on the sale of financial assets and charges related to the student residences. As a result, profit for the financial year increased by 7% from €1.733 million to €1.854 million. The figures for 2004 have been restated following the full adoption of FRS 17: Retirement benefits and FRS 21: Post balance sheet events.

The company generated positive cashflow of €6.7 million during the year due to focus on working capital management.

Investment property held by the group, consisting of the An Grianan farm, the Letterkenny student residences and the Campsie warehouse, have been re-valued by the directors, on the advice of an external valuer, from €12.1 million to €25.3 million resulting in a revaluation surplus of €12.8 million. This revaluation contributed to an increase in net asset value per share from €3.92 to €5.35, an increase of 36%.

Earnings per share increased from 17.2 cent to 18.2 cent an increase of 6%.

Dividends

The total dividend paid for the year was 12 cent per share. It is proposed to declare a final dividend of 7.5 cent at the A.G.M.

Staff

I would like to thank our dedicated staff in all areas for their enthusiastic contribution to the continued success of the company.

Lexie Tinney
Chairman

MANAGING DIRECTOR'S REVIEW

IAN IRELAND MANAGING DIRECTOR

During the year the Group delivered cashflow from operations of €7.7m

2005 will be viewed as a year of consolidation for Donegal Creameries plc. During the year the Group delivered cashflow from operations of €7.7m (2004 €0.6m), a reduction in borrowings of €6.7m and a growth in Earnings per Share of 6%.

Dairy Division

Turnover in the Dairy Division for the year ended December 2005 was €48m. This was broadly in line with the prior year, reflecting a decrease in commodity prices offsetting the acquisitions of Milburn Dairy and Ennis Foods. Both these businesses have been successfully integrated into our processing plant at Killygordon. This enlarged business now has a clear management structure focussed on the customer.

Profitability in the division was down significantly on the previous year due to price decreases on commodity dairy products and non recovery of production cost increases.

Investment property was independently valued at €25.3m, generating a revaluation surplus of €12.8m

Agribusiness Division

Turnover in the Agribusiness Division for the year ended December 2005 was €56m, similar to 2004. Turnover in the retail stores and animal feed businesses were back slightly on the previous year reflecting lower selling prices on many commodity inputs. The potato business delivered a much improved performance on the previous year with good progress made in export markets.

Profitability for the division was broadly in line with the previous year with another good performance from the Stevedoring business.

Other Business

The Group's shareholding in Monaghan Middlebrook Mushrooms had a challenging second half to the year reflecting the oversupply of mushrooms in Europe. The confectionery business grew by 3% in a difficult marketplace.

Land and Property

Rental income from the Group's property increased due mainly to a full year of our Letterkenny student accommodation. Property sales and development had a satisfactory performance. During the year investment property was independently valued at €25.3m, generating a revaluation surplus of €12.8m.

MANAGING DIRECTOR'S REVIEW CONTINUED

OUTLOOK

Dairy Division

It is expected that milk price will more closely reflect the returns available from commodity markets. This combined with further cost savings in the milk business will improve the performance of the Dairy division. Management will focus their attention on development of the liquid milk business in Donegal and repositioning the Ennis Foods added-value offering.

Agribusiness Division

With the continued cost pressures on agriculture the demand for better cost control with regard to inputs will become more demanding. The Division's animal feed and retail stores business will focus on working with customers to meet the needs of this change. The potato business has had a satisfactory start and we look forward to a good season at the back end of the year.

Land and Property

Rental income is expected to be satisfactory, with an improved contribution from summer self-catering. The Group continues to examine development opportunities for its current property assets and is evaluating strategic purchases for the future. The Directors remain confident that our significant land bank and property portfolio will provide long term shareholder value.

Finance

Management will continue to focus on strengthening our financial position through improved working capital management. The continued improvement in cash flow from operations will provide a secure basis for future growth.

Board and Staff

I would like again to thank the Chairman and Board for their support in the last year. I would also like to thank all our staff for their commitment and dedication.

Ian Ireland
Managing Director

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities and review of the business

The Group 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 student residences and the manufacture of confectionery.

Turnover, excluding the share of the joint venture disposed of in 2004, increased by 0.2% to €111.7 million (2004: €111.5 million). The chairman's statement and Managing Director's review include a comprehensive review of the Group's businesses.

As described therein, the performance of the Group and Company has been satisfactory with an operating profit of €120,000 compared to €680,000 (restated) in 2004. The decrease was caused by difficult trading conditions in the dairy sector.

Investment property was revalued at 31 December 2005 resulting in a revaluation gain of €12.8 million.

In monitoring performance the Directors and management have regard to a range of key performance indicators (KPIs), including the following:

KPI	2005	2004
	€	€ (restated)
Profit before tax	**3.6 million**	2.2 million
Net increase/(decrease) in cash	**6.7 million**	(11.9) million
Net debt	**14.8 million**	21.7 million
Net assets	**54.4 million**	39.4 million

In accordance with the requirement to analyse the key risks and uncertainties facing the future development of the Group and Company, the following have been identified:

- Difficult trading conditions in commodity businesses.
- Credit risks associated with dairy customers.
- Cost implications of environmental protection measures.

The Directors have analysed these and other risks and appropriate plans are in place to manage and control these risks. The corporate governance statement on pages 11 to 15 sets out the policies and approach to risks adopted by the Group and the related internal control procedures and responsibilities.

Profits, dividends and reserves

Profit for the financial year amounted to €1.9 million (2004: €1.7 million (restated)). An interim dividend of 5.5 cents per share was paid on 5 December 2005.

The retained profit for the year amounted to €2.3 million (2004 : €0.3m (restated)).

The results for the financial year ended 31 December 2005 are set out in detail on pages 27 to 56.

Share capital

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

Throughout the year ending 31 December 2005, 107,828 ordinary shares of 13 cents each were held as treasury shares by Donegal Creameries plc. This represented 1.0% of the called up share capital of the Company. These shares were acquired at a cost of €129,118.

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 affecting the Group since the year end.

Directors

The Directors of the Company on 25 May 2006 are listed on pages 2 and 3.

Tony Hanlon was co-opted to the board at 23 February 2006 and will go before the A.G.M. for approval.

Except as noted above, each of the directors served for the entire year. At the A.G.M., the following Directors retire by rotation; L Tinney, F Devenney, N Witherow, D Callaghan, P Kelly, B Byrne, J Moody and D Sweeney. Of those retiring by rotation, L Tinney, F Devenney and N Witherow offer themselves for re-election. In addition, the following Directors have tendered their resignation with effect from close of business at the A.G.M.; I Bates, F Browne, S Gallagher, J Hamilton, E Kerr, G McClay, E Moore, R Rankin, M Reid and R Russell. The above changes implement a proposal approved at a Board meeting on 24 November 2005 that the Board be reduced from its previous level of 26 Directors to 11 members in accordance with the provisions in the Combined Code on Corporate Governance: Board balance and Independence. None of the Directors offering themselves for re-election has a service contract with the Company or any of its subsidiaries.

Corporate governance

Maintaining high standards of corporate governance continues to be a priority of the directors of Donegal Creameries plc. The UK Combined Code is the foundation on which their corporate governance policy is based.

In July 2003, the Financial Reporting Council in the UK issued the revised Combined Code on Corporate Governance which superseded and replaced the Combined Code published in 1998. The Board has reviewed the 2003 Combined Code and it is Group policy to apply all of the relevant main and supporting principles of good governance in the 2003 Combined Code.

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

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to oversee the operation of the Group, to provide leadership to the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board meets on a regular basis, holding seven meetings during 2005, and certain matters are specifically reserved to the Board for its decision.

The specific responsibilities reserved to the Board include: setting Group strategy and approving an annual budget; reviewing operational and financial performance; approving major capital expenditure; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Group; and ensuring that a satisfactory dialogue takes place with shareholders.

The Board has delegated the following responsibilities to management: the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board; implementation of the strategies and policies of the Group as determined by the Board; monitoring of the operating and financial results against plans and budgets; prioritising the allocation of technical and human resources; and developing and implementing risk management systems.

The roles of the Chairman and the Managing Director

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of all Directors and constructive relations between the Executive Directors and the other Directors, ensures that Directors receive accurate, timely and clear information and manages effective communication with shareholders.

The Managing Director has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group.

DIRECTORS' REPORT CONTINUED

Senior Independent Director

The Board has not designated a recognised senior member other than the Chairman to whom concerns can be conveyed.

Directors and Directors' Independence

All appointments to the Board are approved by the Nomination Committee. 23 Directors are elected following area electoral meetings. There are no formal time limits for service as Director although service periods are kept under ongoing review and each year one third of the board must retire and be reappointed by the A.G.M. No Non-Executive Director has a service contract with any Group Company.

The Board currently comprises the Chairman, two Executive Directors and 23 Non-Executive Directors. The names of the Directors together with their biographical details are set out on pages 2 and 3. The positions of Chairman and Managing Director are held by different persons. The Board includes an external Director who constructively challenges and helps develop proposals on strategy, and brings strong, independent judgement, knowledge and experience to the Board's deliberations. The Non-Executive Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making. The majority of the Non-Executive Directors, as farmers, have a business relationship with the Group and trade with the Group on normal business terms.

The 2003 Combined Code requires the Chairman to hold meetings with the Non-Executive Directors without the Executive Directors being present. It is the intention to formalise this procedure and hold such meetings on a periodic basis.

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

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Board believes that all Directors bring the appropriate judgement, knowledge and experience to the Board's deliberations. However the Board has yet to evaluate the independence of Directors against the criteria set out in the 2003 Combined Code.

Professional development

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

Performance evaluation

The Board is considering the implementation of a formal process for the annual evaluation of the performance of the Board, its principal Committees, and individual Directors in line with the requirements of the 2003 Combined Code.

The Company Secretary

The Company Secretary is a full time employee of the Group. The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

Relations with shareholders

The Board and management maintain an ongoing dialogue with the Company's shareholders on strategic issues.

The Chairman and the Managing Director give feedback to the Board on issues raised with them by the shareholders. All Directors normally attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

Internal Control

An ongoing process exists for identifying, evaluating and managing the significant risks faced by the Group. This process, which is based on the Combined Code Guidance for Directors, issued by the Institute of Chartered Accountants in England and Wales (the Turnbull Guidance), is periodically reviewed by the Directors and has been in place throughout the accounting period and up to the date the financial statements were approved.

In accordance with the guidance of the Turnbull committee, the Directors are responsible for the Group's system of internal control, set appropriate policies on internal control, should seek regular assurance that will enable them to satisfy themselves that the system is functioning effectively and should ensure that the system of internal control is effective in managing risks in the manner which it has approved. Such a system is designed to manage rather than eliminate business risks and can provide only reasonable rather than absolute assurance against material misstatement or loss.

The Directors have continued to review the effectiveness of the Group's system of financial and non-financial controls during 2005, including operational and compliance controls, risk management and the Group's high level internal control arrangements. These reviews have included an assessment of internal controls by management, management assurance of the maintenance of controls, reports from the external auditors on matters identified in the course of its statutory audit work.

The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. These business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and controls.

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

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

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

The audit committee, a formally constituted sub-committee of the Board, meets on a regular basis with the external auditors and satisfies itself as to the adequacy of the Group's internal control systems.

DIRECTORS' REPORT CONTINUED

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

7 Board meetings were held during the year ended 31 December 2005 and the attendance record of each Director is set out in the following table:

Name	Eligible to attend	Attended	Name	Eligible to attend	Attended
Lexie Tinney	7	7	Ivan Bates	7	7
Ian Ireland	7	7	Charles Tindal	7	6
Dominic Kelly	6	6	Robin Rankin	7	6
Brian Byrne	7	7	Geoffrey McClay	7	7
Norman Witherow	7	6	Daniel Sweeney	7	6
Ronnie Russell	7	5	Ivan Grier	7	6
Frank Browne	7	7	Sean Gallagher	7	7
Michael Reid	7	7	Ernest Moore	7	6
Donal Callaghan	7	5	Francis Devenney	7	7
Patrick Kelly	7	7	Eamon Kerr	7	6
Geoffrey Vance	7	7	Matt McNulty	7	5
John Moody	7	7	John Hamilton	7	7
Marshall Robinson	7	6	P J Kelly	7	7

1 meeting of the Remuneration Committee was held during the year ended 31 December 2005 and the attendance record of each Director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Ivan Grier	1	1
Geoffrey Vance	1	1
Matt McNulty	1	1

2 meetings of the Audit Committee were held during the year ended 31 December 2005 and the attendance record of each Director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Patrick J Kelly	2	2
Geoffrey Vance	2	2
M McNulty	2	2

8 meetings of the Inner Board, which previously carried out the function of the Group's audit committee, were held during the year ended 31 December 2005 and the attendance record of each Director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Lexie Tinney	8	8
Ian Ireland	8	8
Dominic Kelly	7	7
Patrick Kelly	8	7
Norman Witherow	8	8
Geoffrey Vance	8	8
Charles Tindal	8	4
Ivan Grier	8	8
Francis Devenney	8	7
M McNulty	8	4

Remuneration Committee

The Remuneration Committee is comprised of three Non-Executive Directors. Ivan Grier acts as Chairman of the Committee. When necessary, non-Committee members are invited to attend. The Committee's principal responsibilities are:

- to determine, on behalf of the Board, the remuneration and other terms and conditions of employment of the Managing Director;
- to determine, on behalf of the Board, the pay structures and terms and conditions of other senior personnel (as identified by the Chairman of the Board);
- to act, on behalf of the Board, and take all decisions related to pay and pay related matters, as the Chairman of the Board shall determine.
- to act, on behalf of the Board, and take all significant decisions on matters such as remuneration policy, benefits, third party recommendations and related issues.

The report of the Remuneration Committee on behalf of the board is set out on pages 17 to 19.

Audit committee

The Audit Committee, is comprised of three Non-Executive Directors. Geoffrey Vance acts as Chairman of the Committee. When necessary, non-Committee members are invited to attend.

The Audit Committee monitors the integrity of the Group's financial statements. It is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. In order to maintain the independence of the external auditors, the Audit Committee has determined policies as to what audit related and non-audit services can be provided by the Group's external auditors and the approval process related to these services. Under these policies work of a consultancy nature will not be offered to the external auditors unless there are clear efficiencies and value added benefits to the Group while ensuring that the objectivity and independence of the external auditors is maintained. The Audit Committee monitors the level of fees paid to the external auditors.

The Audit Committee reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

The Audit Committee meets with management, as well as privately with the external auditors.

In 2005 the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for 2004 prior to Board approval and meeting and reviewing with the external auditors their reports thereon;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing the potential impact in the Group's financial statements of significant matters arising during the year;
- reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors;
- considering the external auditors' plan for the audit of the Group's financial statements for 2005, key risks to the business, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- considering the adequacy of the Group's system of risk identification and assessment; and
- reviewing an annual report on the Group's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control.

Compliance Statement

The Directors confirm that the Group has been in compliance with the relevant main and supporting principles of the 2003 Combined Code throughout the financial year under review, except as explained above, in relation to the following matters:

- no senior independent Director has been identified;
- an evaluation of Directors' independence against the criteria set out in the 2003 Combined code has yet to be carried out;
- a formal policy in relation to performance evaluation of Board, Board Committees and Directors has yet to be put in place;
- Non-Executive Directors do not currently meet to appraise the Chairman's performance;
- no formal current procedures are currently in place for employees to be able to raise matters of possible impropriety; and
- the majority of the Non-Executive Directors, as farmers, have a business relationship with the Group and trade with the Group on normal business terms.

DIRECTORS' REPORT CONTINUED

Going Concern
The Directors have reviewed the Group's business plan and other relevant information and have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Substantial holdings
As at 25 May 2006, the Company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
Bloxham Investment Funds	798,000	7.8%
Bank of Ireland Nominees Limited	479,000	4.6%

Bloxham Investment Funds and Bank of Ireland Nominees 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 relevant health and safety legislation.

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, KPMG, 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 32 to the financial statements.

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

A.G.M.
The Company's Annual General Meeting will take place at the Mount Errigal Hotel, Letterkenny, Co. Donegal on 6 July 2006. 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	Ian Ireland
Director	Director

25 May 2006

REPORT OF THE REMUNERATION COMMITTEE

Composition of Board and remuneration committee

It is the practice of the Company that a majority of the Board comprises Non-Executive Directors and that the Chairman be non-executive. The remuneration committee consists solely of Non-Executive Directors. The Managing Director is fully consulted about remuneration proposals and outside advice is sought when necessary. The members of the remuneration committee are Ivan Grier, Geoffrey Vance and Matt McNulty.

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 or car allowance. No fees are payable to Executive Directors.

Incentive plan

The Executive Directors are entitled to receive bonus payments as the remuneration committee may decide at their absolute discretion.

Share option scheme

At an extraordinary general meeting held on 27 July 2005 a new share option scheme, for full time executives was approved by shareholders. The scheme permits the grant of options limited to 3% of the ordinary share capital of the Company in any three-year period. Options are granted at the discretion of the remuneration committee. On 2 May 2006 the remuneration committee granted 150,000 share options to Ian Ireland, at an exercise price of €4.35, exercisable between the third anniversary of the date of grant and the sixth anniversary of the date of grant. No other options have been granted under this scheme.

Directors' service contracts

The Managing Director has a service agreement appointing him as Managing Director for three years commencing on 1 January 2005 and continuing thereafter unless and until terminated by either party, giving not less than six months notice. This agreement automatically terminates on the Managing Director 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 18 and 19, details of Directors' share options and shareholdings are given on page 19.

Pensions

The two Executive Directors are entitled to benefits under defined contribution scheme pension arrangements.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Executive Directors

Ian Ireland was appointed Managing Director in January 2005 in place of John Keon. Dominic Kelly resigned as Finance Director in November 2005. In January 2006 Tony Hanlon was appointed Finance Director and appointed to the board on 23 February 2006. These were the only Executive Directors in place during the year.

	2005	2004
	€	€
Salaries and benefits		
Basic salary	336,804	396,740
Benefits (1)	27,636	32,953
	364,440	429,693
Performance related		
Annual incentives	70,000	94,800
Pension charge	74,623	81,060
Ex gratia payments	88,500	418,000
Total Executive Directors' remuneration	597,563	1,023,553
Average number of Executive Directors	2	2
Average annual basic salary per Executive Director	168,402	198,370

Non-Executive Directors

	2005	2004
Fees and other emoluments		
Fees (2)	40,560	40,560
Other emoluments and benefits	-	-
	40,560	40,560
Other remuneration	-	-
	40,560	40,560
Total Non-Executive Directors' remuneration	40,560	40,560
Average number of Non-Executive Directors	24	24
Total Directors' remuneration	638,123	1,064,113

Notes to Directors' remuneration

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

2 Two Non-Executive Directors received fees in 2005 (2004: Two).

	Basic salary €	Fees €	Incentive Bonus €	Benefits €	Pension & other related costs €	2005 Total €	2004 Total €
Executive Directors							
I Ireland	230,000	-	70,000	15,000	46,000	361,000	-
D Kelly	106,804	-	-	12,636	28,623	148,063	278,906
J Keon	-	-	-	-	-	-	744,647
	336,804	-	70,000	27,636	74,623	509,063	1,023,553
Non-Executive Directors							
L Tinney	-	26,000	-	-	-	26,000	26,000
M McNulty	-	14,560	-	-	-	14,560	14,560
	-	40,560	-	-	-	40,560	40,560

In addition an ex-gratia payment of €88,500 was paid during the year following the resignation of an Executive Director.

Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2005 in the ordinary shares of the Company at 31 December 2004 (or date of appointment, if later) and 31 December 2005 are set out below:

	31 December 2005	31 December 2004
Directors:		
L Tinney	95,812	95,812
I Grier	45,243	45,243
T Hanlon	5,000	-
F Devenney	44,853	44,853
P Kelly	125,022	125,022
C Tindal	30,974	30,974
G Vance	171,939	171,939
I Bates	67,044	67,044
F Browne	6,917	5,575
B Byrne	20,659	20,659
D Callaghan	12,898	12,898
S Gallagher	15,135	15,135
E Kerr	24,702	24,702
G McClay	9,567	9,567
J Moody	54,997	54,997
E Moore	12,050	12,050
R Rankin	12,961	12,961
M Robinson	24,417	34,417
R Russell	47,560	47,560
D Sweeney	9,878	9,878
M Reid	6,187	6,187
N. Witherow	37,221	37,221
I. Ireland	5,000	-
P. J. Kelly	1,401	1,401
J. Hamilton	10,276	10,276
M. Mc Nulty	-	-

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have elected to prepare Group and parent Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 Group and 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 the Irish Companies Acts, 1963 to 2005. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Acts, 1963 to 2005.

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

On behalf of the board

Lexie Tinney	Ian Ireland
Director	Director

25 May 2006

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DONEGAL CREAMERIES plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Donegal Creameries plc for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and Company balances sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors in relation to the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and the accounting standards issued by the UK Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) as set out in the statement of Directors' responsibilities on page 20.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether at the balance sheet date there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether in our opinion the information given in the Directors' report is consistent with the financial statements. In addition we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company's financial statements are in agreement with the books of account.

We also report to you if, in our opinion, information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 11 to 15 reflects the Company's compliance with the nine provisions of the 2003 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of opinion

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF DONEGAL CREAMERIES plc

Opinion

In our opinion, the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Group's and parent Company's affairs at 31 December 2005 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 10 to 16 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 30, 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 2005 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.

KPMG

Chartered Accountants
Registered Auditor

25 May 2006

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group financial statements.

The financial statements have been prepared in euro.

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with Irish Generally Accepted Accounting Practice, which includes compliance with the financial reporting standards of the UK Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland. These have been applied consistently with last year except as explained in note 25 the Group has adopted the recognition and measurement requirements of FRS 17: Retirement Benefits in accounting for retirement obligations instead of SSAP 24: Pension Costs; and has adopted FRS 21: Events After The Balance Sheet Date. The Group had previously followed the transitional disclosure requirements of FRS 17.

Turnover

Turnover principally arises from the sale of dairy products, agricultural inputs, seed potatoes, and confectionery, excludes Value Added Tax, and is recognised upon the delivery of such products.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings made up to 31 December 2005.

The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Upon the acquisition of a business, fair values are attributed to the identifiable net assets acquired. Goodwill arising on acquisitions is dealt with as set out below.

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.

Joint venture and associate undertakings

Joint venture undertakings (joint ventures) are those undertakings over which the Group exercises control jointly with another party.

Associated undertakings (associates) are those undertakings in which the Group has a participating interest in the equity capital and over which it is able to exercise significant influence.

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

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

Investments in joint ventures and associates are shown in the company balance sheet as financial fixed assets at cost less provision for any permanent diminution in value.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Goodwill

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

Purchased goodwill arising on acquisitions prior to 1 January 1998 was eliminated against reserves on acquisition and negative goodwill arising on such acquisitions was credited directly to reserves as a matter of accounting policy. On disposal of the business any goodwill so treated is included in determining the profit or loss on sale of the business.

Purchased goodwill arising on acquisitions after 1 January 1998 is capitalised in the balance sheet and amortised over the estimated economic life of the goodwill, which is 20 years.

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 acquired.

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation.

The charge for depreciation is calculated to write down the cost or current value of tangible fixed assets to their estimated residual values by equal annual instalments over their expected useful lives which are as follows:

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

Provision is also made for any impairments of tangible fixed assets below their carrying amounts.

The Group does not adopt a policy of revaluation in relation to tangible fixed assets. 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.

Investment property

Investment properties are revalued annually and are not depreciated or amortised. Where the valuation indicates a permanent diminution in the value of the property, the permanent diminution is charged to the profit and loss account. All other fluctuations in value are transferred to a revaluation reserve.

This treatment is a departure from the requirement of Company Law to provide depreciation on all fixed assets which have a limited useful economic life. However, these investment properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. If depreciation were to be provided it would be provided at a rate of 5% per annum on the revalued amount.

Trade investments

Trade investments are shown at cost less provisions for impairments in value. Income from financial fixed assets, together with any related tax credit, is recognised in the profit and loss account in the year in which it is receivable.

Pensions

The Group provides pensions to its employees under defined benefit and defined contribution pension schemes.

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

For defined benefit schemes, the difference between the market value of the schemes' assets and the actuarially assessed present value of the schemes' liabilities, calculated using the projected unit credit method, is disclosed as an asset/liability on the balance sheet, net of deferred tax (to the extent that it is recoverable).

The amount charged to operating profit is the actuarially determined cost of pension benefits promised to employees earned during the year plus any benefit improvements granted during the year.

The expected return on the pension schemes' assets during the year and the increase in the schemes' liabilities due to the unwinding of the discount during the year are shown as finance costs in the profit and loss account.

Any difference between the expected return on assets and that actually achieved and any changes to the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the Statement of Total Recognised Gains and Losses.

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.

Taxation

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

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. The resulting monetary assets and liabilities are translated at the balance sheet rate or the contracted rate and the exchange differences are dealt with in the profit and loss account.

The Group's net investments in overseas subsidiary undertakings, joint ventures and associates are translated at the rate ruling at the balance sheet date. The profits and losses of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the year. Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings, joint ventures and associates at closing rates, together with the differences on the translation of the profit and loss accounts, are dealt with through reserves and reflected in the statement of total recognised gains and losses. Where net investments are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as reserve movements and reflected in the statement of total recognised gains and losses.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

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
Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their useful lives. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account on an annuity basis. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Dividends
Interim dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are approved by the board. Final dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are approved by shareholders.

Government grants
Capital government grants received are shown as deferred income and credited to the profit and loss account by instalments on a basis consistent with the depreciation policy of the relevant assets.

Other revenue grants are credited to the profit and loss account to offset the matching expenditure.

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

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000 (Restated-note 25)
Turnover : Group and share of joint venture	1	111,677	118,328
Less : share of joint venture's turnover		-	(6,868)
Group turnover		111,677	111,460
Cost of sales		(96,127)	(96,098)
Gross profit		15,550	15,362
Distribution costs		(7,652)	(6,648)
Administration expenses		(7,187)	(7,544)
Other operating costs		(591)	(490)
Operating profit		120	680
(Loss)/profit on disposal of fixed assets		(38)	5
Profit on disposal of financial investments		3,941	477
Impairment of investment in associates	9(b)	(638)	-
Share of results of joint venture		-	442
Share of results of associated undertakings		394	564
Profit on ordinary activities before interest		3,779	2,168
Income from financial assets	2	1,068	1,080
Interest receivable		94	69
Interest payable:			
- Group	3	(1,200)	(985)
- Joint venture	3	-	(35)
- Associate	3	(143)	(107)
Profit on ordinary activities before taxation	4	3,598	2,190
Taxation	5	(1,592)	(285)
Profit on ordinary activities after taxation		2,006	1,905
Minority interest	20	(152)	(172)
Profit for the financial year	18,19	1,854	1,733
Earnings per share			
- basic	7	18.2c	17.2c
- diluted	7	18.0c	17.0c

All profits arose from continuing operations.
The accompanying notes form an integral part of these financial statements.

On behalf of the board

Lexie Tinney	Ian Ireland
Director	Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000 (restated)
Profit for the financial year		1,854	1,733
Translation adjustment		-	(3)
Actuarial gain/(loss) on pensions schemes recognised	26	1,477	(1,212)
Less minority interest in subsidiary pension actuarial loss		177	58
Unrealised gain on part disposal of joint venture interest	9(a)	-	1,261
Total recognised gains and losses for the year		3,508	1,837
Prior year adjustment	25	(2,268)	
Total recognised gains and losses since the last annual report		1,240	

NOTE OF HISTORICAL COST PROFITS AND LOSSES

YEAR ENDED 31 DECEMBER 2005

	2005 €'000	2004 €'000 (restated)
Reported profit on ordinary activities before taxation	3,598	2,190
Difference between the historical cost depreciation charge and the actual depreciation	10	10
Historical cost profit for the year retained before taxation	3,608	2,200

GROUP BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000 (Restated-note 25)
Fixed assets			
Tangible assets	8	19,899	20,432
Financial assets	9	28,331	15,181
Investment in associates	9	3,409	3,803
Goodwill	10	2,432	1,648
		54,071	41,064
Current assets			
Stocks	11	9,924	10,409
Debtors	12	28,456	30,817
Cash at bank and in hand		2,023	1,264
		40,403	42,490
Creditors - Amounts falling due within one year	13	(21,638)	(31,950)
Net current assets		18,765	10,540
Total assets less current liabilities		72,836	51,604
Creditors - Amounts falling due after one year	14	(15,274)	(7,918)
Provisions for liabilities	15	(1,925)	(1,686)
Net assets excluding pension liability		55,637	42,000
Pension liability	26	(1,212)	(2,603)
Net assets		54,425	39,397
Capital and reserves			
Called up share capital	16	1,337	1,337
Share premium	17	2,975	2,954
Revaluation reserve	18	13,154	312
Reserve on acquisition	18	293	293
Other reserves	18	189	189
Profit and loss account	18	35,207	32,928
Shareholders' funds	19	53,155	38,013
Minority interest in subsidiaries	20	1,270	1,384
		54,425	39,397

The accompanying notes form an integral part of these financial statements.

On behalf of the board

Lexie Tinney
Director

Ian Ireland
Director

COMPANY BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000 (Restated-note 25)
Fixed assets			
Tangible assets	8	1,730	1,749
Financial assets	9	38,932	28,352
		40,662	30,101
Current assets			
Stocks	11	3,488	4,572
Debtors	12	20,428	22,357
Cash at bank and in hand		8,979	30,861
		32,895	57,790
Creditors: amounts falling due within one year	13	(40,810)	(73,334)
Net current liabilities		(7,915)	(15,544)
Total assets less current liabilities		32,747	14,557
Creditors: amounts falling due after one year	14	(15,068)	(7,618)
Provision for liabilities	15	(1,266)	(1,048)
Net asset excluding pension asset/(liability)		16,413	5,891
Pension asset/(liability)		253	(770)
Net assets		16,666	5,121
Capital and reserves			
Called up share capital	16	1,337	1,337
Share premium	17	2,975	2,954
Revaluation reserve	18	12,997	155
Reserve on acquisition	18	189	189
Profit and loss account	18	(832)	486
Shareholders' funds		16,666	5,121

The accompanying notes form an integral part of these financial statements.

On behalf of the board

Lexie Tinney
Director

Ian Ireland
Director

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €'000	2005 €'000	2004 €'000	2004 €'000
Net cash inflow from operating activities	27		7,735		583
Returns on investments and servicing of finance					
Property leasing receipts		567		610	
Interest received		94		84	
Dividends paid to minority interest		(103)		(141)	
Interest paid		(717)		(465)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(159)		88
Taxation			(467)		(637)
Capital expenditure and financial investment					
Sale of tangible assets		192		236	
Purchase of tangible assets		(1,948)		(2,532)	
Purchase of financial assets		(135)		(53)	
Sale of financial assets		3,941		496	
Additions to investment property		-		(6,019)	
Net cash inflow/(outflow) from capital expenditure and financial investment			2,050		(7,872)
Acquisitions					
Acquisition of Milburn Dairy Limited	9 (c)	(730)		-	
Cash acquired on acquisition of subsidiaries	9 (c)	(347)			
Acquisition of Crest Securities Limited		-		(1,500)	
Acquisition of loan stock in Carbury Mushrooms Limited		-		(1,842)	
Net cash outflow from acquisitions			(1,077)		(3,342)
Equity dividends paid			(1,315)		(1,362)
Net cash inflow/(outflow) before financing			6,767		(12,542)
Financing					
Issue of shares		21		383	
Finance lease (payments)/receipts	29	(74)		293	
Net cash (outflow)/inflow from financing			(53)		676
Increase/(decrease) in cash	28, 29		6,714		(11,866)

NOTES

FORMING PART OF THE FINANCIAL STATEMENTS

1 Turnover

	2005 €'000	2004 €'000
(a) By class of business:		
Group turnover:		
Dairy products	47,568	46,480
Farm inputs	37,460	39,478
Potatoes	15,447	13,284
Other	11,202	12,218
	111,677	111,460
Share of joint venture's turnover		
Mushrooms and mushroom compost	-	6,868
Turnover: Group and share of joint ventures	111,677	118,328

In 2004, the Group contributed its investment in its joint venture in return for an interest in an associate. See note 9(a) for further details.

	2005 €'000	2004 €'000
(b) By geographical market:		
Group turnover:		
Republic of Ireland	77,106	78,686
Northern Ireland	18,345	20,183
Great Britain	3,511	2,209
Continental Europe	3,081	2,958
Rest of World	9,634	7,424
	111,677	111,460
Share of joint venture's turnover:		
Republic of Ireland	-	1,887
Great Britain	-	4,981
	-	6,868
Turnover: Group and share of joint ventures		
Republic of Ireland	77,106	80,573
Northern Ireland	18,345	20,183
Great Britain	3,511	7,190
Continental Europe	3,081	2,958
Rest of world	9,634	7,424
	111,677	118,328

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

2 Income from financial assets

	2005 €'000	2004 €'000 (restated)
Income from financial assets comprises:		
Lease of property	356	422
Dividends receivable from listed investments	15	16
Income from student residences	229	81
Miscellaneous income	13	34
Expected rate of return on pension scheme assets (note 26)	455	527
	1,068	1,080

3 Interest payable

	2005 €'000	2004 €'000 (restated)
Borrowings wholly repayable by instalment within five years:		
Bank overdraft and loans	717	465
	717	465
Interest on pension scheme liabilities (note 26)	483	520
	1,200	985
Share of interest payable by - joint venture	-	35
- associate	143	107
	1,343	1,127

4 Profit before taxation

	2005 €'000	2004 €'000
Profit before taxation has been arrived at after charging/ (crediting):		
Depreciation	2,949	2,466
Auditors' remuneration	80	75
Amortisation of goodwill	154	119
Profit on sale of listed investments	(3,119)	-
Profit on sale of investment property	(811)	(336)
Amortisation of capital grants	(8)	(5)

Amounts paid to Directors are disclosed in the report of the remuneration committee on pages 17 to 19.

NOTES CONTINUED

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5 Tax on profits on ordinary activities

	2005 €'000	2004 €'000
Current tax:		
Irish corporation tax	1,183	120
United Kingdom corporation tax	88	163
Share of tax of joint venture	-	39
Share of tax of associates	7	44
Overprovision in relation to prior year	-	(135)
Current tax charge for year	1,278	231
Deferred tax:		
Deferred tax charge for the year (Note 15)	314	54
	1,592	285

The current tax charge for the year is higher than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The differences are explained below:

	2005 €'000	2004 €'000 (restated)
Profit on ordinary activities before tax	3,598	2,190
Profit on ordinary activities multiplied by the average rate of Irish Corporation tax for the year of 12.5% (2004: 12.5%)	450	274
Effects of:		
Share of joint venture/associate profits not tax deductible	-	(27)
Net disallowable expenses	155	173
Differences in effective tax rate on Sterling earnings	92	54
Adjustment re capital gains tax	358	-
Base cost and inflation relief on land disposal	-	18
Distributions receivable from Irish companies	(105)	(71)
Manufacturing relief	-	(4)
Overprovision in relation to prior year	373	(135)
Other adjustments	(45)	(51)
Current tax charge for year	1,278	231

6 Dividends

	2005 €'000	2004 €'000 (restated - note 25)
Ordinary dividend paid of 12c per share (2004: 12c)	1,229	1,236

7 Earnings per share

	2005	2004 (restated)
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)	1,854	1,733
Denominator:		
Weighted average number of ordinary shares in issue for the year	10,285,590	10,187,657
Average number of treasury shares	(107,828)	(107,828)
Denominator for basic earnings per share	10,177,762	10,079,829
Effect of dilutive potential ordinary shares (share options)	114,590	114,590
Denominator for diluted earnings per share	10,292,352	10,194,419
Basic earnings per ordinary share	18.2c	17.2c
Diluted earnings per ordinary share	18.0c	17.0c

8 Tangible assets

	Freehold & leasehold and buildings €'000	Plant €'000	Fixture and fittings €'000	Motor vehicles €,000	Tankers and trailers €'000	Total €'000
Group						
Cost						
At 31 December 2004						
- Valuation	775	-	-	-	-	775
- Cost	12,417	21,015	1,829	2,724	943	38,928
Additions	139	1,168	154	409	25	1,895
Acquisition of subsidiary (note 9c)	68	645	5	-	-	718
Disposals	-	(217)	(17)	(501)	-	(735)
Translation adjustment	11	23	-	-	-	34
At 31 December 2005	13,410	22,634	1,971	2,632	968	41,615
Accumulated depreciation						
At 31 December 2004	2,654	12,710	1,382	1,669	856	19,271
Charge for year	373	1,971	175	387	43	2,949
On disposals	-	(158)	(15)	(331)	-	(504)
At 31 December 2005	3,027	14,523	1,542	1,725	899	21,716
Net book amounts						
At 31 December 2004	10,538	8,305	447	1,055	87	20,432
At 31 December 2005						
- Valuation	775	-	-	-	-	775
- Cost	12,535	22,634	1,971	2,632	968	40,840
- Accumulated depreciation	(3,027)	(14,523)	(1,542)	(1,055)	(899)	(21,716)
	10,383	8,111	429	907	69	19,899

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

8 Tangible assets (continued)

Included above are amounts in respect of assets held under finance leases:

	2005 €'000	2004 €'000
Net book value	184	317
Depreciation charge for year	133	24

	Freehold and leasehold land and buildings €'000	Plant €'000	Fixtures and fittings €'000	Motor vehicles €'000	Total €'000
Company					
Cost or valuation					
At 31 December 2004					
- valuation	775	-	-	-	775
- cost	1,557	486	937	628	3,608
Additions	130	8	18	63	219
Disposals	-	-	-	(179)	(179)
	2,462	494	955	512	4,423
Accumulated depreciation					
At 31 December 2004	968	397	820	449	2,634
Charge for year	73	16	36	67	192
On disposals	-	-	-	(133)	(133)
At 31 December 2005	1,041	413	856	383	2,693
Net book amounts					
At 31 December 2004	1,364	89	117	179	1,749
At 31 December 2005					
- valuation	775	-	-	-	775
- cost	1,687	494	955	512	3,648
- accumulated depreciation	(1,041)	(413)	(856)	(383)	(2,693)
	1,421	81	99	129	1,730

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 reserves (Note 18).

9 Financial assets

	Other investments €'000	Loan stock in associate €'000	Listed shares €'000	Unlisted shares €'000	Prize bonds €'000	Invest-ment property €'000	Total €'000	Asso-ciates €'000
Group								
At 31 December 2004	61	2,742	30	130	100	12,118	15,181	3,803
Additions	-	-	-	-	-	309	309	-
Share of increase in net assets	-	-	-	-	-	-	-	244
Revaluation (note 9-d)	-	-	-	-	-	12,842	12,842	-
Disposals	-	-	(1)	-	-	-	(1)	-
Impairment (note 9-b)	-	-	-	-	-	-	-	(638)
At 31 December 2005	61	2,742	29	130	100	25,269	28,331	3,409

	Subsidiary companies €'000	Listed Shares €'000	Associate under-takings €'000	Other interests €'000	Loan stock in associate €'000	Prize bonds €'000	Invest-ment property €'000	Total €'000
Company								
At 31 December 2004	5,744	22	4,897	114	2,742	100	14,733	28,352
Additions	-	-	-	-	-	-	309	309
Acquisition of subsidiaries	851	-	-	-	-	-	-	851
Revaluation (note 9-d)	-	-	-	-	-	-	12,842	12,842
Disposal	-	(1)	-	-	-	-	-	(1)
Impairment (note 9-b & f)	(1,500)	-	(638)	-	-	-	(1,283)	(3,421)
At 31 December 2005	5,095	21	4,259	114	2,742	100	26,601	38,932

Cost	32,802
Valuation	12,997
Provision	(6,867)
	38,932

(a) Acquisition of interest in associate - 2004

On 1 June 2004 as part of a business transaction with Monaghan Middlebrook Mushrooms Limited ("MMML"), the Group contributed its investment in its joint venture ("JV") Carbury Mushrooms Limited ("Carbury"), including certain loan stock held in that joint venture, to MMML in return for a 23% holding in MMML. MMML now owns 100% of Carbury. From the date of this transaction MMML, including its subsidiary Carbury, is accounted for as an associate of the Group. This transaction has been accounted for in accordance with UITF 31. The Group's continuing interest in Carbury, i.e. the 23% interest retained, continues to be carried at book value; the company's acquired interest in the rest of the MMML group is recorded at fair value, including goodwill; and a gain was recognised in the Statement of Total Recognised Gains and Losses on the proportion of Carbury no longer held by the Group, as follows:

	€'000
Gain on transaction - 2004	
Consideration received for interest in JV sold	2,760
Carrying value of assets sold	(646)
Provisions	(853)
	1,261

The gain of €1,261,000 was included in the Statement of Total Recognised Gains and Losses as it had not been realised.

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

9 Financial assets (continued)

(b) Interest in associates

The investment in MMML at 31 December 2005 comprised the following

	2005	2004
	€'000	€'000
Loan to associate	2,742	2,742
Goodwill on acquisition	-	406
Share of net assets in associates	3,409	3,397
	6,151	6,545

During the year the Group recognised an impairment to the carrying value of the interest in associates of €638,000, comprising an impairment of goodwill of €406,000 and an impairment to the share of net assets in associates of €232,000.

(c) Acquisition of subsidiary

On 29 April 2005 the Group acquired 100% of the share capital of Milburn Dairy Limited for cash consideration of €730,000.

On 1 January 2005 the Group acquired the remaining 80% of the share capital not previously held of Ennis Foods Limited by exercising an option to purchase the remaining share capital for €1.

	Total
	€'000
Fair value of assets acquired:	
- Fixed assets	718
- Cash	(347)
- Debtors	411
- Creditors	(1,062)
- Stock	193
	(87)
Consideration paid/loans forgiven	851
Goodwill arising	938

The post acquisition loss after taxation for the year ended 31 December 2005 of these companies was €513,000.

(d) Revaluation of investment property

The investment properties of the Group and Company were revalued by Charles Robinson, MIPAV to an open market value basis reflecting existing use as of December 2005. The valuation was carried out in accordance with SCS Appraisal Valuation Manual. The investment property represents a farm, An Grianán, acquired by the Company in 1996 and the Letterkenny Student Residence.

(e) Group

The market value of the listed shares at 31 December 2005 was €26,000 (2004: €1,887,000). 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.

9 Financial assets (continued)

(f) Company

During the year, the Company recognised an impairment against the carrying value of a dormant subsidiary, Crest Security Limited, of €1,500,000 and an impairment to the carrying value of the Letterkenny Student Residence of €1,283,000, being profits on the sale of the property between two Group Companies included in the carrying value of the asset. The cumulative provision at 31 December 2005 of €6,867,000 (2004: €3,447,000) is against the carrying value of subsidiary and associated companies €3,624,000 (2004: €1,486,000), investment property €1,283,000 and unlisted shares, €1,961,000 (2004: €1,961,000).

10 Goodwill

	Positive goodwill €'000	Negative goodwill €'000	Total €'000
Group			
Goodwill arising on acquisitions:			
At 31 December 2004	2,992	(922)	2,070
Additions (note 9-c)	938	-	938
At 31 December 2005	3,930	(922)	3,008
Released to profit and loss account:			
At 31 December 2004	676	(254)	422
Amortised during the year	196	(42)	154
At 31 December 2005	872	(296)	576
Net book amount:			
At 31 December 2004	2,316	(668)	1,648
At 31 December 2005	**3,058**	**(626)**	**2,432**

11 Stocks

	2005 €'000	2004 €'000
Group		
Dairy	46	46
Agricultural Inputs	7,655	8,395
Confectionery	1,350	1,121
Packaging and other stocks	873	847
	9,924	10,409
Company		
Dairy	-	6
Store	3,468	4,552
Expense stocks	20	14
	3,488	4,572

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

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

12 Debtors

	2005	2004
	€	€
Group		
Trade debtors	24,602	25,940
Amounts owed by associated undertakings	2,299	2,180
Value added tax	463	1,263
Other debtors	132	64
Prepayments and accrued income	960	1,342
Corporation tax recoverable	-	28
	28,456	30,817
Amount falling due after more than one year included above:	775	1,291
Company		
Trade debtors	5,561	8,001
Amounts owed by subsidiary undertakings	11,798	10,808
Amounts owed by associated undertakings	2,279	2,156
Taxation	39	852
Other debtors	576	-
Prepayments and accrued income	175	540
	20,428	22,357
Amounts falling due after more than one year included above:	775	1,291

13 Creditors - amounts falling due within one year

	2005	2004
	€	€
		(restated)
Group		
Bank loans and overdrafts	1,560	15,020
Finance leases	67	46
Trade creditors	14,308	11,858
Corporation tax	1,065	146
Income tax deducted under PAYE	118	234
Pay related social insurance	120	166
Value added tax	233	167
Other creditors and accruals	4,167	4,313
	21,638	31,950
Company		
Bank loans	4,779	2,809
Trade creditors	2,076	2,209
Amounts due to subsidiary undertakings	31,717	66,482
Corporation tax	530	(35)
Income tax deducted under PAYE	46	194
Pay-related social insurance	61	100
Other creditors and accruals	1,599	1,575
Value added tax	2	-
	40,810	73,334

The bank loans and overdrafts are secured by cross guarantees from other Group Companies.

14 Creditors - amounts falling due after one year

	2005 €'000	2004 €'000
Group		
Bank loans	15,076	7,618
Capital grants deferred	31	39
Finance leases	167	261
	15,274	7,918
Company		
Bank loans	15,068	7,618
	15,068	7,618

15 Provisions for liabilities

	2005 €'000	2004 €'000
Group		
Deferred tax liability	952	638
Other provisions	973	1,048
	1,925	1,686

A provision in respect of expected warranty claims against the Group by other parties has been included in "other provisions" above. The exact nature and the amount of this provision has not been disclosed, as, in the opinion of the directors, such disclosure would be prejudicial to the interests of the Group.

Deferred taxation	
At 31 December 2004	638
Charged to profit and loss account (Note 5)	314
At 31 December 2005	952

Full provision has been made for deferred taxation, being a potential tax clawback of €286,000 (2004: €nil) and timing differences of €666,000 (2004: €638,000), as it is expected that the relevant corporation tax will become payable in the foreseeable future. No deferred tax asset has been recognised with respect to the pension liability (note 26) due to the level of uncertainty over the recoverability of such an asset.

Other provisions	
At 31 December 2004	1,048
Payment	(75)
At 31 December 2005	973

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

15 Provisions for liabilities (continued)

Company	2005 €'000	2004 €'000
Deferred tax liability	293	-
Other provisions	973	1,048
	1,266	1,048

Other provisions	
At 31 December 2004	1,048
Payment	(75)
At 31 December 2005	973

16 Share capital - Group and Company

	2005 €'000	2004 €'000
Authorised		
50,000,000 ordinary shares of 13 cents each	6,500	6,500
Allotted and fully paid		
At beginning of year- 10,285,590 (2004: 10,094,990) ordinary shares of 13 cents each	1,337	1,312
Employee share options exercised	-	25
At end of year - 10,285,590 ordinary share of 13c each	1,337	1,337

There are options outstanding in respect of 89,590 ordinary shares of 13 cents each at 31 December 2005 (2004: 114,590). This figure includes options over 48,000 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.

17 Share premium - Group and Company

	2005 €'000	2004 €'000
At beginning of year	2,954	2,597
Employee share options exercised	21	357
At end of year	2,975	2,954

18 Reserves

	Revaluation Reserve €'000	Reserve on acquisition €'000	Other reserves €'000	Profit and loss account €'000
Group				
At 31 December 2004 (as previously reported)	312	293	189	34,527
Prior year adjustment (note 25)	-	-	-	(1,599)
At 31 December 2004 (restated)	312	293	189	32,928
Loss for year	-	-	-	1,854
Dividends	-	-	-	(1,229)
Actuarial gain on pension scheme (note 26)	-	-	-	1,654
Translation adjustment	-	-	-	-
Revaluation of investment property (note 9)	12,842	-	-	-
At 31 December 2005	13,154	293	189	35,207
Company				
At 31 December 2004 (as previously reported)	155	-	189	587
Prior year adjustment (note 25)	-	-	-	(101)
At 31 December 2004 (restated)	155	-	189	486
Loss for year	-	-	-	(1,196)
Dividends	-	-	-	(1,229)
Actuarial gain on pension scheme (note 26)	-	-	-	1,107
Revaluation of investment property (note 9-c)	12,842	-	-	-
At 31 December 2005	12,997	-	189	(832)

Other reserves of €188,749 are non distributable as they are not available for distribution until such time as the contingent liability (see Note 22) to repay capital grants, received from the Industrial Development Authority, has expired.

Profits available for distribution are restricted by €129,110 (2004: €129,110), being the cost of shares in Donegal Creameries plc held by the Group. As permitted by Section 148(8) of the Companies Act, 1963 a profit and loss account in respect of the Parent Company is not shown. A loss after tax of €1,196,000 (2004: restated €707,421) relating to the Parent Company is included in the Group profit and loss account.

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

19 Reconciliation of movements in shareholders' funds

	2005 €'000	2004 €'000 (restated - note 25)
Opening shareholders' funds (as previously reported)	39,612	37,504
Prior year adjustment (note 25)	(1,599)	(474)
Opening shareholders' funds	38,013	37,030
Increase in share premium	21	357
Increase in share capital	-	25
Profit for the financial year	1,854	1,733
Dividends	(1,229)	(1,236)
	646	879
Unrealised gain on acquisition of associate	-	1,261
Actuarial gain/(loss) on pension scheme (note 26)	1,654	(1,154)
Revaluation of investment property (note 9)	12,842	-
Translation adjustment	-	(3)
Net addition to shareholders' funds	15,142	983
Closing shareholders' funds	53,155	38,013

20 Minority interests in subsidiaries

	2005 €'000	2004 €'000 (restated)
At 1 January (as previously reported)	1,681	1,657
Prior year adjustment	(297)	(246)
At 1 January (restated)	1,384	1,411
Share of profit for year	152	172
Dividends paid	(103)	(141)
Translation adjustment	14	-
Share of actuarial loss on pension scheme	(177)	(58)
At 31 December	1,270	1,384

21 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, 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 No. 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

	2005 €'000	2004 €'000
The Group's financial assets, as defined by Financial Reporting Standard No. 13, comprise		
Listed shares	29	30
Unlisted shares	130	130
	159	160

The nature of these financial assets is as follows:

	2005		2004	
	Total €'000	Equity shares €'000	Total €'000	Equity shares €'000
Currency				
Euro	159	159	160	160

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

	Notes	2005 €'000	2004 €'000
Finance leases	13-14	234	307
Bank loans and overdrafts	13-14	16,636	22,638
Total		16,870	22,945

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

31 December 2005:	Total €'000	Floating rate Financial liabilities €'000	Fixed rate financial liabilities €'000
Currency			
Euro	16,636	16,636	-
Sterling	234	-	234
Total	16,870	16,636	234

31 December 2005:	Fixed rate financial liabilities	
	Weighted average interest rate %	Period for which rate is fixed years
Currency		
Euro	3	4

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

21 Financial instruments (continued)

31 December 2004:	Total €'000	Floating rate financial liabilities €'000	Fixed rate financial liabilities €'000
Currency			
Euro	22,243	22,221	22
Sterling	702	417	285
Total	22,945	22,638	307

31 December 2004:	Fixed rate financial liabilities	
	Weighted average interest rate %	Period for which rate is fixed years
Currency		
Euro	3	5

The floating rate financial liabilities comprise:
- Euro denominated overdrafts that bear 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 2005 these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				
31 December 2005:	Euro €'000	Sterling €'000	US Dollar €'000	Other €'000	Total €'000
Functional currency of Group operation					
Euro	-	2,770	54	64	2,888
Sterling	(2,603)	-	-	-	(2,603)
Total	(2,603)	2,770	54	64	285

21 Financial instruments (continued)

31 December 2004:

	Net foreign currency monetary assets/(liabilities)				
	Euro	Sterling	US Dollar	Other	Total
	€'000	€'000	€'000	€'000	€'000
Functional currency of Group Operation					
Euro	-	3,394	30	54	3,478
Sterling	(277)	-	-	-	(277)
Total	(277)	3,394	30	54	3,201

(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 2005 was as follows:

	2005	2004
	€'000	€'000
In one year or less or on demand	1,627	15,066
In more than one year but not more than two years	1,627	261
In more than two years but not more than five years	13,616	7,618
	16,870	22,945

(d) Borrowing facilities

There were €14.2 million un-drawn borrowing facilities at 31 December 2005 (2004: €8.6 million).

(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 2005:

	2005		2004	
	Book value	Fair value	Book value	Fair value
	€'000	**€'000**	€'000	€'000
Primary financial instruments held or issued to finance the Group's operations:				
Listed and unlisted shares (Note 9)	159	160	160	2,017
Overdrafts and short-term borrowings (Note 13)	1,560	1,560	15,020	15,020
Long-term borrowings (Note 14)	15,076	15,076	7,618	7,618
Finance leases (Notes 13 and 14)	234	234	307	307
Derivative financial instruments held to Hedge the currency exposure on sales				
Forward currency contracts	-	-	-	-

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.

(f) Gains and losses on hedging contracts

There were no recognised gains and losses on hedging instruments at 31 December 2005 or 31 December 2004.

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FORMING PART OF THE FINANCIAL STATEMENTS

22 Contingent liabilities

Group and Company

Under agreements between the Group and the Industrial Development Authority, capital grants up to a maximum of €730,000 (2004: €730,000) could become repayable in certain circumstances as set out in the agreements.

Company

The Company has guaranteed the bank borrowings of certain subsidiaries. At 31 December 2005 these borrowings amounted to €19,480,000 (2004: €40,497,000).

23 Directors' remuneration and interests in shares

Directors' remuneration (including pensions) and interests in shares (including share options) are listed on pages 17 to 19 in the report of the remuneration committee.

24 Employees

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

	2005 Number	2004 Number
Production	164	145
Stores	107	105
Transport	39	42
Administration	74	68
	384	360

	2005 €'000	2004 €'000 (restated)
Wage costs are comprised of:		
- Wages and salaries	9,606	9,546
- Social welfare costs	968	953
- Other pension costs	725	576
	11,299	11,075

25 Prior year adjustments

Prior year adjustments arise in the current year following the full adoption of FRS 17: Retirement benefits and FRS 21: Post Balance Sheet Events

(a) FRS 17: Retirement benefits

The Group adopted the reporting requirements of FRS 17: Retirement Benefits in its primary financial statements from 1 January 2005. The financial information for the year ended 31 December 2004, which was originally prepared under the accounting requirements of SSAP 24 Pension Costs, has been restated following the adoption of FRS 17. The main impact of the change in accounting policy was to record on the balance sheet the full amount of the deficit or asset in the defined benefit pensions schemes measured in accordance with FRS 17.

25 Prior year adjustments (continued)

(b) FRS 21: Post Balance Sheet Events

The Group adopted the reporting requirements of FRS 21: Events after the Balance Sheet Date in its primary financial statements with effect from 1 January 2005. The impact of this accounting standard is to only accrue for dividends in the accounting period when they are approved by the shareholders. The impact on the financial statements during 2004 was to decrease retained profit for the year by €8,000 and to increase shareholders funds at 31 December 2004 by €669,000, being the value of proposed dividends to be paid at 31 December 2004.

The impact on the 2004 results and closing balance sheet of the Group of these changes to accounting policies is set out below:

	Pre prior year adjustment €'000	Prior year adjustments a) FRS 17 €'000	b) FRS 21 €'000	As restated under FRS 17 €'000
Profit and loss account				
Group turnover	111,460	-	-	111,460
Cost of sales	(96,098)	-	-	(96,098)
Gross profit	15,362	-	-	15,362
Operating costs	(14,719)	37	-	(14,682)
Operating profit	643	37	-	680
Exceptional items	482	-	-	482
Share of result of JV and associates	1,006	-	-	1,006
Profit on ordinary activities before interest	2,131	37	-	2,168
Income from financial assets	553	527	-	1,080
Interest receivable	69	-	-	69
Interest payable	(607)	(520)	-	(1,127)
Profit on ordinary activities	2,146	44	-	2,190
Taxation	(285)	-	-	(285)
Minority interest	(165)	(7)	-	(172)
Dividends	(1,228)	-	(8)	(1,236)
Profit for the financial year	468	37	(8)	497

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

25 Prior year adjustments (continued)

	Pre prior year adjustment €'000	Prior year adjustments a) FRS 17 €'000	Prior year adjustments b) FRS 21 €'000	As restated under FRS 17 €'000
Statement of total recognised gains and losses				
Profit for the year	1,696	37	-	1,733
Translation adjustment	(3)	-	-	(3)
Unrealised gain on part disposal of joint venture interest	1,261	-	-	1,261
Actuarial loss	-	(1,212)	-	(1,212)
Less minority interest	-	58	-	58
Total recognised gains and losses	2,954	(1,117)	-	1,837
Balance sheet				
Fixed assets	41,064	-	-	41,064
Current assets	42,490	-	-	42,490
Creditors due within one year	(32,657)	38	669	(31,950)
Creditors due after one year	(7,918)	-	-	(7,918)
Provisions for liabilities and charges	(1,686)	-	-	(1,686)
Pension liability	-	(2,603)	-	(2,603)
Net assets	41,293	(2,565)	669	39,397
Financed by				
Shareholders funds	39,612*	(2,268)	669	38,013
Minority interest	1,681*	(297)	-	1,384
	41,293	(2,565)	669	39,397

* 2004 Minority interests have been restated to reflect the correct treatment of dividends paid.

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 professionally qualified actuaries 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 January 2004, 1 April 2003, 1 January 2003 and 1 February 2002, the market value of the schemes' assets was €8,462,000, and the actuarial value of those assets represented in aggregate 98% 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 €400,000 (2004: €318,000). The actuarial reports are not available for public inspection.

Contributions to the schemes will continue at the actuary's recommended rate.

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 €325,000 (2004: €258,000).

At 31 December 2005 €30,000 (2004: restated €4,000) was included within creditors in respect of defined contribution pension liabilities.

26 Pensions (continued)

The Group operates several defined benefit schemes. The full actuarial valuations carried out as outlined above were updated to 31 December 2005 for FRS 17 disclosure purposes by qualified independent actuaries. The main financial assumptions used in the valuations were:

	2005	2004	2003
Rate of increase in salaries	3.50% - 4.25%	3.50% - 4.25%	3.50% - 4.50%
Rate of increase in pensions in payment	2.00% - 2.25%	2.25% - 2.50%	2.50% - 5.00%
Discount rate	4.25% - 4.50%	4.25% - 5.00%	5.00% - 5.50%
Inflation assumption	2.00% - 2.25%	2.00% - 2.25%	2.00% - 2.50%

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

	Long-term rate of return expected at 31 December 2005	Market value at 31 December 2005	Long-term rate of return expected at 31 December 2004	Market value at 31 December 2004	Long-term rate of return expected at 31 December 2003	Market value at 31 December 2003
Equities and property	6.6%	4,141	6.9%	3,492	7.4%	3,010
Bonds	3.6%	651	5.0%	2,207	4.5%	2,016
Managed funds	7.0%	3,754	7.0%	2,987	7.0%	3,285
Other	3.3%	238	3.4%	325	3.7%	259
		8,784		9,011		8,570

The following amounts at 31 December 2005, 31 December 2004 and 31 December 2003 were measured in accordance with the requirements of FRS 17:

	2005 €'000	2004 €'000	2003 €'000
Total market value of assets	8,784	9,011	8,570
Present value of scheme liabilities	(9,996)	(11,614)	(9,985)
Deficit in the scheme	(1,212)	(2,603)	(1,415)

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

26 Pensions (continued)

The following amounts have been recognised under the requirements of FRS 17:

	2005 €'000	2004 €'000	2003 €'000
Operating profit			
Current service cost	400	318	211
Other finance income			
Expected rate of return on pension scheme assets	455	527	494
Interest on pension scheme liabilities	(483)	(520)	(494)
	(28)	7	-
Statement of recognised gains and losses			
Actual return less expected return on pension scheme assets	1,102	342	327
Experience gains and losses arising on the scheme liabilities	924	(700)	(854
Changes in assumptions underlying the present value of the scheme liabilities	(549)	(854)	237
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	1,477	(1,212)	(290)
Movement in surplus during the year			
Deficit in scheme at 1 January	(2,603)	(1,415)	(1,333)
Movement in year:			
Current service cost	(400)	(318)	(211)
Contributions paid	342	335	419
Other finance income	(28)	7	-
Actuarial gain/(loss)	1,477	(1,212)	(290)
Deficit in scheme at 31 December	(1,212)	(2,603)	(1,415)

Experience gains and losses for the year	31 December 2005 €'000	31 December 2004 €'000	31 December 2003 €'000
Difference between the expected and actual return on scheme assets	1,102	342	327
Percentage of scheme assets	12.5%	3.8%	3.8%
Experience gains and losses on scheme liabilities	924	(700)	(854)
Percentage of the present value of scheme liabilities	9.2%	(6.0%)	8.6%
Total recognised in statement of total recognised gains and losses	1,477	(1,212)	(290)
Percentage of the present value of the scheme liabilities	14.8%	(10.4%)	(0.3%)

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

	2005 €'000	2004 €'000 (restated)
Operating profit	120	680
Depreciation	2,949	2,466
Amortisation of goodwill	154	107
Capital grants amortised	(8)	(5)
Decrease/(increase) of stock	722	(135)
Decrease/(increase of trade debtors	2,808	(404)
Increase/(decrease) of trade creditors	880	(2,067)
Non-cash movement on pension charge	96	(37)
Exchange rate movements	14	(22)
Net cash inflow from operating activities	7,735	583

28 Reconciliation of net cash flow to movement in net debt

	2005 €'000	2004 €'000
Increase/(decrease) in cash	6,714	(11,866)
Capital element of finance lease payments/(payments)	74	(293)
Change in net cash resulting from cash flows	6,788	(12,159)
Exchange rate movements	47	21
Movement in net debt in the year	6,835	(12,138)
Net debt at beginning of year	(21,681)	(9,543)
Net debt at end of year	(14,846)	(21,681)

29 Analysis of net debt

	At 31 December 2004 €'000	Cash flow €'000	Foreign exchange €'000	At 31 December 2005 €'000
Cash at bank and in hand	1,264	712	47	2,023
Overdrafts	(5,962)	5,962	-	-
	(4,698)	6,674	47	2,023
Bank loans due within one year	(9,058)	7,498	-	(1,560)
Bank loan due after one year	(7,618)	(7,458)	-	(15,076)
	(16,676)	40	-	(16,636)
Finance leases	(307)	74	-	(233)
Net debt	(21,681)	6,788	47	(14,846)

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

30 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 €1,913,000 (2004: €2,011,000) and €538,000 (2004: €685,000), respectively.

The aggregate amounts owed to the Directors, and by the Directors, in respect of these transactions at 31 December 2005 was €80,000 (2004: €98,000) and €174,000 (2004: €425,000) respectively.

Donra Dairies Limited, an associate undertaking, purchased goods on standard commercial terms from the Group during the year amounting to €2,180,000 (2004: €2,312,000).

31 Future capital expenditure not provided for

	2005 €'000	2004 €'000
At the year end capital commitments authorised by the Directors and not provided for in the financial statements were as follows:		
Authorised but not contracted for	-	-
Contracted but not provided for	-	-

32 Principal interests in subsidiary and associated undertakings

Name and registered office	Principal activity	Direct/Indirect 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 €1.26973 each
Robert Smyth & Sons (Strabane & Donegal) Limited, Ballindrait, Lifford, Co Donegal	Manufacture of animal feed compounds	100%	324,168 ordinary shares of €1.26973
Comharchuman Gaeltacht Lár Tír Chonaill	Selling of agricultural and dairy products	54.1%	47,073 ordinary shares of €1.26973 each
Donegal Dairy Products Limited	Non-trading	100%	384,996 ordinary shares of €1.26973 each
Asian Paneer (Ireland) Limited (through Donegal Dairy Products Limited)	Non-trading	75%	29,915 ordinary shares of €1.26973 each
North Donegal Co-Operative Enterprises Limited	Non-trading	56.6%	26,500 ordinary shares of €1.26973 each
Irish Potato Marketing Limited, Unit 1, Loughlinstown Centre, Loughlinstown, Dun Laoghaire, Co. Dublin	Development, marketing and sale of seed potatoes	100%	8 "A" ordinary shares of €1.26973 each
Donegal Potatoes Limited (through Irish Potato Marketing Limited) Colehill, Newtoncunningham, Co. Donegal	Grading and storage of potatoes and sack printing	100%	120,000 ordinary shares of €1.26973 each
Wm Mc Kinney and Sons Limited Ramelton Road, Letterkenny, Co. Donegal	Confectionary manufacture	76% 0%	323,750 ordinary shares of €1.26973 each 15,000 preference shares of €1.26973 each
North Western Livestock Holdings Limited Doonally House, Doonally, Sligo	Co-operative Society	22.4%	156,298 ordinary shares of €1.27 each
Crest Securities Limited	Property Development	100%	100 ordinary shares of €1 each

Name and registered office	Principal activity	Direct/Indirect Holding	Issued and fully paid up capital
Ramelton Road Property Developments Limited	Property	100%	1 ordinary share of €1 Development
Letterkenny Student Residences Partnership	Property	100%	Partnership Development
Milburn Dairy Limited	Dormant	100%	90 ordinary shares of €1 each
Ennis Foods Limited	Distribution of milk products	100%	773,712 ordinary shares of €1.269738 each
		100%	215,922,270 ordinary 'A' shares of €0.001269738 each

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

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	Agents 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.

Name and registered office	Principal activity	Direct/Indirect Holding	Issued and fully paid up capital
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

Associated undertakings:

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in the Republic of Ireland:			
Monaghan Middlebrook Mushrooms Ltd Tyholland, Co. Monaghan	Mushroom Marketing and compost production	23%	3,846,669 ordinary 'A' shares €0.634869 each 5,770,004 ordinary 'B' shares of of €0.634869 each
Donra Dairies Limited Ballyraine, Letterkenny, Co Donegal	Distribution of long life milk	50%	2 ordinary shares of €1.26973 each

The results of all subsidiary 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. 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.

33 Approval of financial statements

The Directors approved the financial statements on 25 May 2006.

GROUP FINANCIAL SUMMARY

Detailed Profit and Loss Account	2005 €'000	2004 €'000 (Restated)	2003 €'000	2002 €'000	2001 €'000
Turnover	111,677	111,460	113,920	135,337	125,930
Operating profit	120	680	5,093	5,144	3,315
Profit on disposal of fixed assets	(38)	5	31	55	223
Profit on disposal of financial investments	3,941	477	1,110	699	580
Impairment of investment in associate	(638)	-	-	-	-
Share of results of joint venture	-	442	(1,775)	549	1,152
Share of results of associates	394	564	-	-	42
Income from financial assets	1,068	1,080	932	800	834
Interest receivable	94	69	4	29	53
Interest payable	(1,343)	(1,127)	(799)	(1,467)	(1,146)
Profit before tax	3,598	2,190	4,520	5,809	6,215
Tax	(1,592)	(285)	(773)	(921)	(1,273)
Profit after tax	2,006	1,905	3,747	4,888	4,942
Minority interest	(152)	(172)	(169)	(198)	(74)
Dividends	(1,229)	(1,236)	(1,202)	(1,133)	(1,010)
Profit retained	625	497	2,376	3,557	3,858

Balance sheet	2005 €'000	2004 €'000 (Restated)	2003 €'000	2002 €'000	2001 €'000
Tangible fixed assets	19,899	20,432	20,545	21,124	15,423
Financial fixed assets	28,331	15,181	10,507	10,568	10,822
Investments in joint venture	-	-	(2,308)	(36)	286
Investment and associates	3,409	3,803	-	-	-
Intangible assets	2,432	1,648	1,755	1,918	2,105
Net current assets	18,765	10,540	16,915	11,689	4,158
	72,836	51,604	47,412	45,263	32,794
Creditors due after one year	(15,274)	(7,918)	(7,667)	(7,677)	(2,576)
Provisions	(1,925)	(1,686)	(584)	(608)	(334)
Pension deficit	(1,212)	(2,603)	n/a	n/a	n/a
Minority interests	(1,270)	(1,384)	(1,657)	(1,548)	(730)
Shareholders' funds	53,155	38,013	37,504	35,430	29,154
Depreciation (€'000)	2,949	2,466	2,617	2,615	1,707
Earnings per share (cents)	18.2	17.2	35.9	47.2	49.0
Earnings per share excluding exceptional items (cents)	18.2	17.2	35.9	47.2	41.7
Dividends per share (cents)	12.0	12.0	12.0	11.4	10.2
Dividends cover (times)	1.5	1.4	3.0	4.1	4.8


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