Donegal

DONEGAL CREAMERIES plc

Interim Results for the six months ended 30 June 2007

a platform for growth

FINANCIAL HIGHLIGHTS

€'000	H1 2007	H1 2006	Change
Revenue	**61,170**	57,398	+6.6%
Operating Profit	**3,868**	3,478	+11.2%
PBT	**4,527**	3,152	+43.6%
Op. Cash Flow	**6,019**	3,794	+58.6%
EPS (cents)	**27.8**	24.3	+14.4%
Dividend Per Share	**6.5c**	6.0c	+8.3%
Net Debt	**8,445**	10,350	-18.4%

Donegal Creameries Plc ("Donegal Creameries", the "Group" or the "Company") is pleased to report a solid performance for the first half of 2007 with increases in revenue, operating profit and earnings per share.

Revenue increased by 6.6% to just over €61m and operating profit increased by 11.2% to €3.9m. This was achieved from organic growth in the Groups core Dairy and Agribusiness Divisions. These results include the Oatfield confectionery business up to April, which was then sold. The Group retained ownership of the landmark Oatfield property that has been re-valued upwards by €2.9m.

These are the first results prepared by Donegal Creameries PLC under International Financial Reporting standards. The impact of re-stating results previously issued to comply with these standards is set out in the appendix.

Earnings per share increased by 14.4%. An interim dividend of 6.5c is to be paid, 8.3% ahead on 2006. This will be paid on 3 December 2007 to shareholders on the register on 9 November 2007.

Operations Review

Dairy

Turnover in the dairy business was up by 16% to €27.5m. This was achieved from a combination of organic growth, added value dairy products and an upturn in global dairy commodity prices. The division continues to improve the performance in its branded added value business.

Agribusiness

Turnover in the agribusiness division was up by 14.7% to €32.2m. Good progress continues to be made in the seed potato business which exports products to 30 international markets. During the first half of the year the stores business diversified and opened an equine centre and two garden centres all of which traded satisfactorily.

Property and Investments

The Company holds significant property assets which have been reorganised into an operational business division. Donegal Estates, its estate agency component, was successfully launched and is performing ahead of plan. The division continues to be very proactive in maximising future returns from the Group's property portfolio.

Outlook

The Board is confident that the Group will deliver a strong performance for the full year. The global environment for Dairy commodities remains positive and the Company has a strong platform for growth. Our Agribusiness results are highly dependent on the last quarter for the seed potato business however the outlook at this stage is positive.

As described before the Group will continue to develop shareholder value from its property assets and businesses. There is now a proactive policy of investing in property for development. We have also commenced the conversion of a large part of the Grianan Estate to Organic status that will support our entry into the higher value and high growth organic food market.

Geoffrey Vance
Chairman

UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

In thousands of euro	30 June 2007 Continuing Operations	Discontinued Operation	Total Unaudited	30 June 2006 Restated Continuing Operations	Discontinued Operation	Total Unaudited
Revenue	59,755	1,415	61,170	54,294	3,104	57,398
Cost of sales	(49,789)	(1,099)	(50,888)	(46,056)	(2,326)	(48,382)
Gross profit	9,966	316	10,282	8,238	778	9,016
Other income	944	-	944	2,344	-	2,344
Distribution expenses	(3,518)	(29)	(3,547)	(3,133)	(48)	(3,181)
Administrative expenses	(3,232)	(425)	(3,657)	(3,684)	(566)	(4,250)
Other operating expenses	(16)	(138)	(154)	(351)	(100)	(451)
Operating profit/(loss)	4,144	(276)	3,868	3,414	64	3,478
Finance income	48	-	48	38	-	38
Finance expenses	(412)	-	(412)	(378)	-	(378)
Net financing expense	(364)	-	(364)	(340)	-	(340)
Share of profit of associates	1,023	-	1,023	14	-	14
Profit before tax	4,803	(276)	4,527	3,088	64	3,152
Income tax expense	(601)	-	(601)	(608)	-	(608)
Profit after tax but before loss on discontinued operation	4,202	(276)	3,926	2,480	64	2,544
Loss on sale of discontinued operation, net of tax	-	(1,441)	(1,441)	-	-	-
Profit/(loss) for the period	4,202	(1,717)	2,485	2,480	64	2,544
Attributable to:						
Equity holders of the parent	4,186	(1,355)	2,831	2,425	49	2,474
Minority interest	16	(362)	(346)	55	15	70
Profit/(loss) for the period	4,202	(1,717)	2,485	2,480	64	2,544
Basic earnings per share (euro)	41.1	(13.3)	27.8	23.8	0.5	24.3
Diluted earnings per share (euro)	40.2	(13.0)	27.2	23.6	0.5	24.1

UNAUDITED CONDENSED INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE SIX MONTHS ENDED 30 JUNE 2007

In thousands of euro	**2007 Unaudited**	**2006 Unaudited**
Foreign exchange gain	2	-
Revaluation of investment property upon transfer from property, plant and equipment	2,947	-
Defined benefit plans actuarial gains	206	-
Net change in fair value of available for sale financial assets	817	261
Tax on income and expense recognised directly in equity	(778)	(55)
Income and expense recognised directly in equity	3,194	206
Profit for the period	2,485	2,544
Total recognised income and expense for the period	5,679	2,750
Attributable to:		
Equity holders of the parent	5,286	2,820
Minority interest	393	(70)
Total recognised income and expense for the period	5,679	2,750

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2007

In thousands of euro	30 June 2007 Unaudited	Restated 31 Dec 2006 Unaudited	Restated 30 June 2006 Unaudited
Assets			
Property, plant and equipment	16,235	18,607	19,295
Intangible assets	1,815	1,893	3,073
Investment property	32,546	28,947	24,786
Investments in associates	7,255	6,368	5,882
Other investments, including derivatives	3,567	2,535	2,737
Trade and other receivables	198	198	200
Total non-current assets	61,616	58,548	55,973
Inventories	7,878	8,137	9,172
Trade and other receivables	26,399	29,814	27,659
Cash and cash equivalents	7,089	441	6,483
Total current assets	41,366	38,392	43,314
Total assets	102,982	96,940	99,287
Equity			
Issued capital	1,337	1,337	1,337
Share premium	2,975	2,975	2,975
Reserves	17,062	14,801	14,703
Retained earnings	38,766	35,741	35,903
Total equity attributable to equity holders of the parent	60,140	54,854	54,918
Minority interest	1,284	1,739	1,340
Total equity	61,424	56,593	56,258
Liabilities			
Loans and other borrowings	14,228	14,261	15,241
Employee benefits	338	686	1,212
Deferred income	75	-	-
Provisions	505	973	973
Deferred tax liabilities	4,246	3,566	3,426
Total non-current liabilities	19,392	19,486	20,852
Loans and other borrowings	1,306	1,306	1,592
Deferred income	100	-	-
Current tax	766	462	213
Trade and other payables	19,994	19,093	20,372
Total current liabilities	22,166	20,861	22,177
Total liabilities	41,558	40,347	43,029
Total equity and liabilities	102,982	96,940	99,287

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

In thousands of euro	**2007 Unaudited**	**2006 Unaudited**
Operating activities		
Profit for the period	2,485	2,544
Adjustments for:		
Depreciation	1,188	1,273
Changes in fair value of investment property	(348)	-
Net finance costs	364	340
Share of profit of associates	(1,023)	(14)
Gain on sale of property, plant and equipment	(427)	(2,037)
Loss on sale of discontinued operation, net of income tax	1,441	-
Income tax expense	601	608
	4,281	2,714
Change in inventories	(972)	740
Change in trade and other receivables	2,248	959
Change in trade and other payables	1,692	379
Change in provisions and employee benefits	(607)	-
	6,642	4,792
Interest paid	(431)	(341)
Income tax paid	(192)	(592)
Net cash from operating activities	6,019	3,859
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	224	127
Disposal of subsidiary, net of cash disposed of	1,832	-
Acquisition of property, plant and equipment	(725)	(1,016)
Interest received	48	38
Acquisition of investment property	(715)	(523)
Proceeds from sale of investment property	-	2,037
Net cash from investing activities	664	663
Cash flows from financing activities		
Payment of finance lease liabilities	-	(31)
Net cash from financing activities	-	(31)
Net increase in cash and cash equivalents	6,683	4,491
Cash and cash equivalents at 1 January	(15,128)	(14,838)
Effect of exchange rate fluctuations on cash held	-	(3)
Cash and cash equivalents at 30 June	(8,445)	(10,350)

NOTES TO THE INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(1) International Financial Reporting Standards

Basis of Preparation

The consolidated interim financial information of the Group has been prepared in accordance with the recognition and measurement principles of International Reporting Standards (IFRS), including interpretations issued by the International Accounting Standards Board (IASB) and its committees and endorsed by the European Commission. The Group's first consolidated financial statements prepared in accordance with IFRS will be prepared for the year ended 31 December 2007. The accounting policies that the group expects to use in the preparation of IFRS as adopted by the EU compliant financial statements are set out in an attachment to this document.

The figures for the half year ended 30 June 2007 are unaudited. The comparative figures for the half year ended 30 June 2006 are also unaudited. The amounts for the year ended 31 December 2006 represent an abbreviated version of the restatement of the Group's statutory financial statements from Irish GAAP to IFRS, as adopted by the EU, and these will be attached to the annual return of the Group to be filed with the Companies office. These statutory financial statements were audited and the auditor issued an unqualified report thereon.

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

(2) Segmental Reporting

	6 months ended 30-Jun-07 Eur '000	6 months ended 30-Jun-06 Eur '000
Revenue by Segment		
Dairy Products	27,532	23,714
Agribusiness	32,223	28,095
Property and Investments	1,415	5,589
	61,170	**57,398**
Trading Profit by Segment		
Dairy Products	1,845	735
Agribusiness	1,107	586
Property and Investments	916	2,157
	3,868	**3,478**

NOTES TO THE INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(3) Earnings per Share and Diluted Earnings per Share

	6 months ended 30-Jun-07 Eur '000	6 months ended 30-Jun-06 Eur '000
Earnings as reported	2,831	2,474
Weighted average number of shares	10,285,590	10,285,590
Average Number of treasury shares	(107,828)	(107,828)
	10,177,762	10,177,762
Dilutive Potential Shares:		
Employee Share Options	239,179	97,563
Dilutive Weighted average number of shares	10,416,941	10,275,325
Basic earnings per share	27.8	24.3
Diluted earnings per share	27.2	24.1

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the company by the weighted average number of shares in issue during the period, excluding share options and warrants.

Diluted earnings per share is calculated by adjusting for the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary Shares. Options and warrants granted under Employee share option schemes dilute the earnings per share by increasing the weighted average number of shares without changing the net profit.

(4) Analysis of Net Debt

	6 months ended 30-Jun-07 Eur '000	6 months ended 30-Jun-06 Eur '000
Non-Current Assets:		
Cash and cash equivalents	-	-
Current Assets:		
Cash and cash equivalents	7,089	6,483
Non-current liabilities		
Financial Liabilities	(14,228)	(15,241)
Current Liabilities		
Financial Liabilities	(1,306)	(1,592)
Net Debt	**(8,445)**	**(10,350)**

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies

Donegal Creameries is a company domiciled in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The condensed consolidated interim financial statements were authorised for issuance on 20 September 2007.

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements. These are the Group's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

In accordance with International Financial Reporting Standard No.1: First Time Adoption of International Financial Reporting Standards (IFRS 1), which establishes the framework for transition to IFRS by a first time adopted such as Donegal Creameries plc, the Group has elected to avail of a number of specified exemptions from the general principle of retrospective restatements as follows:

- Business combinations undertaken prior to the transition date of 1 January 2006 have not been subject to restatements. Accordingly, goodwill as at the transaction date is carried forward at its net book value and is subject to annual impairment testing in accordance with International Accounting Standard 36: Impairment of Assets (IAS 36). As required under IFRS 1, goodwill was assessed for impairment at the transition date and no further impairment above the amount previously recognised under Irish GAAP resulted from this exercise.
- Donegal Creameries plc has deemed the cumulative currency translation differences applicable to foreign operations to be zero as at transition date. The cumulative currency translation differences arising after the transition date have been classified in 'Other Reserves' in the Balance Sheet with no net impact on capital and reserves attributable to the Company's equity holder.
- In accordance with the exemption allowed on transition to IFRS, the fair value calculations in respect of share based payments under International Financial Reporting Standard No. 2; Share Based Payments (IFRS 2), have only been applied in respect of share options granted after 7 November 2002

As a result of the exemptions described above, financial results and summarised historical financial information previously published by the Group for periods prior to 1 January 2006 will not be fully restated under IFRS.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(b) Basis of preparation

The financial statements are presented in euro, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property. Non-current assets and assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Functional currencies within the Group consist of euro and pounds sterling.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

These condensed consolidated interim financial statements have been prepared on the basis of IFRSs in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, 31 December 2007. Based on these IFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first IFRS annual financial statements are prepared for the year-ended 31 December 2007.

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs, as required by IFRS 1.

The accounting policies have been applied consistently throughout the Group for purposes of these condensed consolidated interim financial statements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The condensed consolidated interim financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2006, the date of transition to IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

• buildings	4 - 20 years
• plant and equipment	10 years
• fixtures and fittings	4 - 10 years
• motor vehicles	4 - 10 years
• fixtures and fittings	4 years
• tankers and trailers	6 years

The residual value is reassessed annually.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill has been recognised in acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy k). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy k).

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

(iii) Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested systematically for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives are as follows:

- computer software 4 years

(g) Investments

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every twelve months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, when relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows then is applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below.

	Yields
Land	2%- 3%
Student residences	5%- 6%

Valuations reflect, when appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in profit or loss.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the Group's assets, investment property, inventories, employee benefit assets, and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset is recorded at a re-valued amount in which case it is treated as a revaluation decrease.

(l) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any currently available future refunds from the plan or reductions in future contributions to the plan.

(iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(p) Trade and other payables

Trade and other payables are stated at cost.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(q) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. No revenue is recognised if there is significant continuing management involvement with the goods.

(ii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(r) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in profit or loss.

Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit or loss on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

(s) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Significant accounting policies (continued)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even for assets measured at fair value, as are gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Explanation of transition to IFRSs

These are the Group's first condensed consolidated interim financial statements for part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRSs.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2007, the comparative information for the six months ended 30 June 2006, the financial statements for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, comparative information for the six months ended 30 June 2006 and financial statements for the year ended 31 December 2006, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Reconciliation of Equity at 1 January 2006

	Previous GAAP	Reclass-ification (a)	Leasehold Property (b)	Goodwill (c)	Foreign exchange contracts (h)	Available for sale financial instruments (g)	Deferred tax (j)	IFRS
Assets								
Property, plant & equipment	19,899	(15)	(200)					19,684
Investment property	-	24,786						24,786
Other investments including derivatives	28,331	(27,528)				1,135		1,938
Investments in Associates	3,409	2,742			3		(282)	5,872
Intangible assets	-	15						15
Goodwill	2,432			626				3,058
Trade and other receivables	-		200					200
Total non-current assets	54,071	-	-	626	3	1,135	(282)	55,553
Current assets								
Inventories	9,924							9,924
Trade and other receivables	28,456							28,456
Cash and cash equivalents	2,023							2,023
Total Current Assets	40,403	-	-	-	-	-	-	40,403
Total assets	**94,474**	**-**	**-**	**626**	**3**	**1,135**	**(282)**	**95,956**
Equity								
Issued capital	1,337							1,337
Share Premium	2,975							2,975
Reserves	13,636					908		14,544
Retained Earnings	35,207			626	3		(2,489)	33,347
Total equity attributable to shareholders	53,155	-	-	626	3	908	(2,489)	52,203
Minority Interest	1,270							1,270
Total equity	**54,425**	**-**	**-**	**626**	**3**	**908**	**(2,489)**	**53,473**
Interest bearing loans & borrowings	15,274							15,274
Employee benefits	1,212							1,212
Provisions	973							973
Deferred tax liabilities	952					227	2,207	3,386
Total non current liabilities	**18,411**	-	-	-	-	227	2,207	**20,845**
Deferred Income								
Trade & Other Payables	21,638							21,638
Total Current Liabilities	21,638	-	-	-	-	-	-	21,638
Total liabilities	**40,049**	**-**	**-**	**-**	**-**	**227**	**2,207**	**42,483**
Total equity and liabilities	**94,474**	**-**	**-**	**626**	**3**	**1135**	**(282)**	**95,956**

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Reconciliation of Equity at 30 June 2006

	Previous GAAP	Reclass-ification (a)	Leasehold Property (b)	Goodwill (c)	Foreign exchange contracts (h)	Convertible Loan notes (i)	Available for sale financial instruments (g)	Deferred tax (j)	IFRS
Assets									
Property, plant & equipment	19,510	(15)	(200)						19,295
Investment Property		24,786							24,786
Other investments including derivatives	28,854	(27,528)				77	1,334		2,737
Investments in Associates	3,417	2,742			5			(282)	5,882
Intangible assets		15							15
Goodwill	2,327			731					3,058
Trade and other receivables			200						200
Total non-current assets	54,108	-	-	731	5	77	1,334	(282)	55,973
Current assets									
Inventories	9,172								9,172
Trade and other receivables	27,659								27,659
Cash and cash equivalents	6,483								6,483
Total Current Assets	43,314	-	-	-	-	-	-	-	43,314
Total assets	**97,422**	**-**	**-**	**731**	**5**	**77**	**1,334**	**(282)**	**99,287**
Equity									
Issued capital	1,337								1,337
Share Premium	2,975								2,975
Reserves	13,636						1,067		14,703
Retained Earnings	37,579			731	5	77		(2,489)	35,903
Total equity attributable to shareholders of parent	55,527	-	-	731	5	77	1,067	(2,489)	54,918
Minority interest	1,340								1,340
Total equity	**56,867**	**-**	**-**	**731**	**5**	**77**	**1,067**	**(2,489)**	**56,258**
Interest bearing loans and borrowings	15,241								15,241
Employee benefits	1,212								1,212
Provisions	973								973
Deferred tax liabilities	952						267	2,207	3,426
Total non current liabilities	**18,378**	**-**	**-**	**-**	**-**	**-**	**267**	**2,207**	**20,852**
Trade and other payables	22,177								22,177
Total current liabilities	22,177	-	-	-	-	-	-	-	22,177
Total liabilities	**40,555**	**-**	**-**	**-**	**-**	**-**	**267**	**2,207**	**43,029**
Total equity and liabilities	**97,422**	**-**	**-**	**731**	**5**	**77**	**1,334**	**(282)**	**99,287**

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Reconciliation of Equity at 31 December 2006

	Previous GAAP	Reclass-ification (a)	Leasehold Property (b)	Goodwill (c)	Foreign exchange contracts (h)	Derivative (i)	Available for sale financial instruments (g)	Deferred tax (j)	IFRS
Assets									
Property, plant and equipment	18,822	(17)	(198)						18,607
Investment property		28,947							28,947
Other investments including derivatives	31,936	(31,105)				168	1,536		2,535
Investments in associates	4,689	2,158		10	(1)			(488)	6,368
Intangible assets		17							17
Goodwill	1,200			676					1,876
Trade and other receivables			198						198
Total non-current assets	56,647	-	-	686	(1)	168	1,536	(488)	58,548
Current assets									
Inventories	8,137								8,137
Trade and other receivables	29,814								29,814
Cash & cash equivalents	441								441
Total current assets	38,392	-	-	-	-	-	-	-	38,392
Total assets	**95,039**	**-**	**-**	**686**	**(1)**	**168**	**1,536**	**(488)**	**96,940**
Equity									
Issued capital	1,337								1,337
Share premium	2,975								2,975
Reserves	13,575						1,226		14,801
Retained earnings	37,633			686	(1)	168		(2,745)	35,741
Total equity attributable to shareholders of parent	55,520			686	(1)	168	1,226	(2,745)	54,854
Minority interest	1,739								1,739
Total equity	**57,259**	**-**	**-**	**686**	**(1)**	**168**	**1,226**	**(2,745)**	**56,593**
Interest bearing loans & borrowings	14,261								14,261
Employee benefits	686								686
Provisions	973								973
Deferred tax liabilities	998						310	2,257	3,565
Total non current liabilities	**16,918**	**-**	**-**	**-**	**-**	**-**	**310**	**2,257**	**19,485**
Trade and other payables	20,862								20,862
Total current liabilities	20,862	-	-	-	-	-	-	-	20,862
Total liabilities	**37,780**	**-**	**-**	**-**	**-**	**-**	**310**	**2,257**	**40,347**
Total equity and liabilities	**95,039**	**-**	**-**	**686**	**(1)**	**168**	**1,536**	**(488)**	**96,940**

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Notes to the Reconciliation of Equity

The impact on deferred tax of the adjustments described below is set out in note (j).

(a) The adoption of Income Statement and Balance Sheet disclosure formats as permitted by International Financial Reporting Standards required the reclassification of a number of items due to differences with the Group's previous disclosure formats under Irish GAAP. These comprise the reclassification of items previously classified as exceptional items which have now been reclassified according to their function in the Income Statement and the separation of Investment Property, Investment in Associates and Other Investments previously all recognised in Investments.

(b) As required by International Accounting Standard 17: Leases (IAS 17) long leasehold land is no longer classified as property, plant and equipment but is classified as an operating lease when title does not pass to the lessee by the end of the lease. At 1 January 2006, the IFRS transition date, the group had land which had cost €200,000. Upon transition, this has been reclassified from property, plant and equipment to prepayments as it represents prepaid operating lease expenses. This amount will be released to the income statement over the remaining lives of the leases.

(c) Under International Financial Reporting Standards, goodwill is no longer amortised on a straight line basis, but instead is subject to annual impairment testing under International Accounting Standard 36 (IAS 36). At 1 January 2006, the IFRS transition date, the group held a net goodwill asset of €3,058,000 which is carried forward at its book value. The impact of the transition to IAS 38 on the financial year ended 31 December 2006 has been to increase the pre-tax profit by €104,956 for the six months ended 30 June 2006 and by €193,000 for the year ended 31 December 2006. As the group conducted an impairment review of all goodwill held at 31 December 2006 which resulted in impairment losses being recognised, these amortisation costs are lower than the amortisation charges previously reported under Irish GAAP for those periods.

Under IFRS 1, negative goodwill previously recognised in the balance sheet has been included in retained earnings upon transition. At 1 January 2006 the Group previously had €626,000 of negative goodwill which has now been recognised in retained earnings.

(d) Under IFRS 1, the Group has deemed the cumulative currency translation difference applicable to foreign operations to be zero as at the transition date. Currency translation differences arising since the transition date recognised directly in the profit and loss account have been presented as a separate component of equity.

(e) Under Irish GAAP, computer software was previously capitalised as a tangible fixed asset. Under International Accounting Standard 38: Intangible assets (IAS 38), computer software that is not an integral part of computer software is capitalised as an intangible asset. Computer software as of 1 January 2006, 30 June 2006 and 31 December 2006 with a net book value of €14,792, €14,910 and €16,973 respectively, has been transferred from tangible fixed asset to intangible fixed assets in the balance sheet.

(f) Under Irish GAAP, revaluation gains on investment property were previously recognised directly to equity and not through the income statement. Under International Accounting Standard 40: Investment Property (IAS 40), all changes in fair value in investment property are recognised in profit and loss. A gain of €1,026,000 arising in the period ending 31 December 2006 from the revaluation of investment property held by an associate has therefore been transferred to the income statement as a share in profits of associates.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards (continued)
Notes to the Reconciliation of Equity (continued)

(g) In accordance with IFRSs, available-for-sale investments have been recognised as assets or liabilities at fair value, with changes in value recognised in equity unless they are regarded as impairment losses.

The effect of measuring available-for-sale equity securities at fair value is to increase *Non-current investments and Statement of Recognised Income and Expenditure* by €1,135,000, €1,334,000 and €1,536,000, respectively, at 1 January 2006, 30 June 2006 and 31 December 2006.

(h) An associate of the Group holds derivative financial instruments to hedge its foreign currency risk exposures. Hedge accounting is not applied to such derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Following the transition to IFRS, changes in the fair value of these derivatives are recognised in profit or loss as part of foreign currency gains and losses.

(i) Under IFRS, embedded derivatives are separated from the host contract and accounted for separately of the economic characteristics of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair values of seperable embedded derivatives are recognised immediately in profit and loss as finance income/expenses.

(j) The above changes increased (decreased) the deferred tax liability as follows:

In thousand of Euro	**1 Jan 2006**	**30 Jun 2006**	**31 Dec 2006**
Financial instruments	227	267	310
Investment property	2,787	2,787	2,587
Investment in associates	282	282	488
Employee benefits	(152)	(152)	(86)
Tax losses carry forward	(428)	(428)	(243)
Increase in deferred tax liability	2,716	2,756	3,056

The effect on the income statement for the six months ended 30 June 2006 and for the year ended 31 December 2006, respectively, was to increase the previously reported tax charge for the period, respectively, by €Nil and €285,000.

Furthermore, under previous GAAP the Group did not recognise a deferred tax asset for the carry forward of unused tax losses. In accordance with IFRSs, such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

APPENDIX DONEGAL CREAMERIES plc

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Reconciliation of Profit for the six months ended 30 June 2006

In thousands of euro	Previous GAAP	Reclass-ifications *(a)*	Goodwill *(c)*	Share Options	IFRSs
Revenue	57,398				57,398
Cost of sales	(48,382)				(48,382)
Gross profit	9,016				9,016
Other income		2,239	105		2,344
Distribution expenses	(3,181)				(3,181)
Administrative expenses	(4,243)			(7)	(4,250)
Other operating expenses	(451)				(451)
Operating profit before financing costs	1,141	2,239	105	(7)	3,478
Profit on disposal of fixed assets					
Income from financial assets	202	(202)			-
Profit on disposal of financial assets	2,037	(2,037)			-
Impairment of investment in associate undertaking					
Operating profit before financing costs	3,380	-	105	(7)	3,478
Financial income	38				38
Financial expenses	(378)				(378)
Net financing costs	(340)				(340)
Share of profit of associates	9		5		14
Profit before tax	3,049		110	(7)	3,152
Income tax expense	(607)				(607)
Profit for the period	2,442		110	(7)	2,545
Attributable to:					
Equity holders of the parent	2,372				2,474
Minority interest	70				70
Profit for the period	2,442		110	(7)	2,545
Basic earnings per share (euro)	23.3				24.9
Diluted earnings per share (euro)	23.1				24.8

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Transition to International Financial Reporting Standards
Reconciliation of Profit for the six months ended 31 December 2006

In thousands of euro	**Share Options**	**Reclass-ifications** *(a)*	**Goodwill** *(c)*	**Investment property held at associate** *(f)*	**Convertible loan notes** *(i)*	**IFRSs**
Revenue	118,585					118,585
Cost of sales	(96,098)					(96,098)
Gross profit	22,487					22,487
Other income	-	3,202	50			3,252
Distribution expenses	(9,146)					(9,146)
Administrative expenses	(8,998)					(8,998)
Other operating expenses	(1,780)	(584)				(2,364)
Operating profit before financing costs	2,563	2,618	50			5,231
Profit on disposal of fixed assets	11	(11)				-
Income from financial assets	1,069	(1,069)				-
Profit on disposal of financial assets	2,122	(2,122)				-
Impairment of investment in associate undertaking	(584)	584				-
Operating profit before financing costs	5,181	(2,618)	50			5,231
Financial income	83				168	251
Financial expenses	(1,240)					(1,240)
Net financing costs	(1,157)				168	(989)
Share of profit of associates	122		9	1,026		1,157
Profit before tax	4,146		59	1,026	168	5,399
Income tax expense	(1,130)			(206)	(15)	(1,351)
Profit for the period	3,016		59	820	153	4,048
Attributable to:						
Equity holders of the parent	2,799					3,831
Minority interest	217					217
Profit for the period	3,016		59	820	153	4,048
Basic earnings per share (euro)	27.5					37.6
Diluted earnings per share (euro)	27.0					37.3

NOTES

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