ANNUAL REPORT 2022

CARBERY

Contents

Carbery Annual Report 2022

Carbery at a Glance

943
GLOBAL EMPLOYEES

1,208
FARMER SHAREHOLDERS

12
GLOBAL FACILITIES

OPERATIONAL HIGHLIGHTS

Revenue

+31%

€700.8m

EBITDA

+4%

€52.1m

EBITA

+5%

€32.8m

Litres of milk processed in Ballineen

598 million

Milk volume

-2%

GROUP ENVIRONMENTAL HIGHLIGHTS

-5.5%
Carbon Emissions

-17.7%
Production GHG Intensity

-8.4%
Water Use

-44.7%
Waste to Landfill

Enriching Lives, Together

OUR DRIVING FORCE

50 years ago, our purpose was to create a stable and sustainable future for the farmers of West Cork. Today, we retain that commitment, and as a global company, consider a wider set of stakeholders, including our communities, customers, suppliers and the planet.

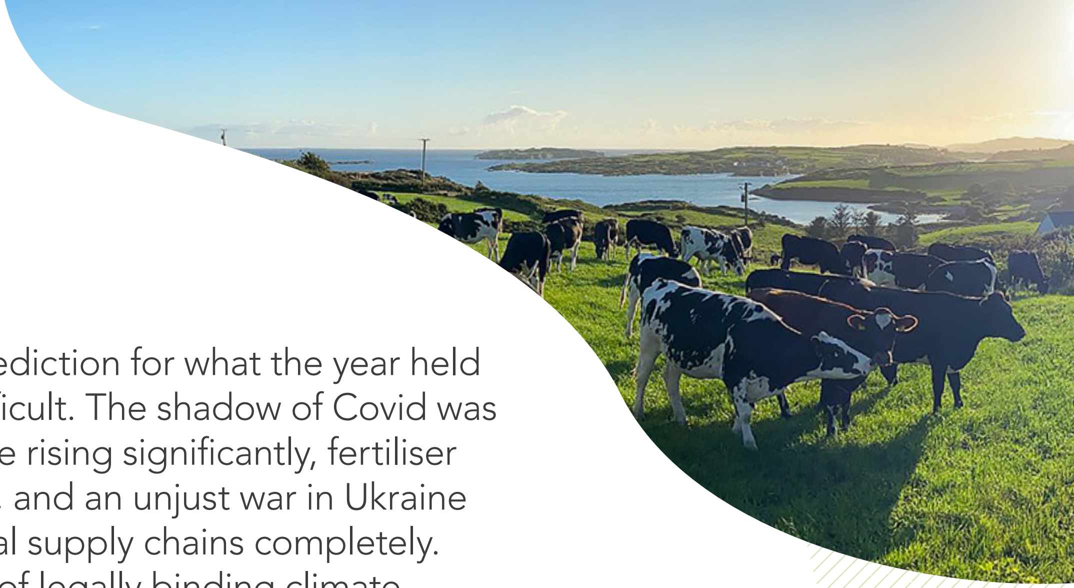
Throughout 2022, we undertook an exercise to revisit our purpose and ensure it was meaningful across our whole organisation. We also wanted a guiding principle that will take Carbery successfully into the future, while building on our rich heritage.

Enriching Lives, Together means we want to deliver more than financial success - to leave behind a positive impact on our shareholders, employees, customers and communities. It describes how we like to work, in partnership, creating better things with collaboration. It encompasses our overall driving commitment to not just operating sustainably, but creating a sustainable future.

Chairman's Statement

Cormac O'Keeffe, Chairman

2022 IN REVIEW



At the start of 2022, any prediction for what the year held in store for farmers was difficult. The shadow of Covid was continuing, input costs were rising significantly, fertiliser was already in short supply, and an unjust war in Ukraine threatened to disrupt global supply chains completely. We also had the backdrop of legally binding climate targets to be announced for the agriculture sector and uncertainty around what that meant for farmers.

As I reflect on where we are now and it was certainly a turbulent year, but we are left with fewer uncertainties, and know more about our future direction, which is overall a positive thing. We did indeed have very high input costs, but farmers also saw record high prices for milk in 2022. The war in Ukraine has been a painful experience to watch unfold, especially for the people of Ukraine, but we were proud to be able to come together as four co-ops, Carbery and suppliers and raise more than €90,000 to donate to UNICEF and the Red Cross. The climate action targets are set, and while a 25% reduction in emissions by 2030 (from a 2018 baseline) will be a challenge for the sector to achieve, at least we now have clarity in what we are aiming for. We are off to a solid start in terms of knowing what works: implementing measures in the Teagasc Marginal Abatement Cost Curve (MACC), and those supported by our FutureProof bonus will contribute to emissions reductions. New science and approaches being trialled at Farm Zero C in Shinagh will also help to bridge the current gap.

We have made major efforts to support farmers this year through measures like the FutureProof bonus, and the 1 cent per litre (cpl) milk bonus declared at the end of the year. We also chose to support our fixed milk suppliers throughout the year. We had occasions to gather together and share knowledge, at the Milk Quality Awards, the farm walk with our 2021 winners Ronald, Betty and Brian Shorten and through the Farmer Welfare Conference in January 2022.

We have seen successes on the climate front with improvements in areas being managed under the Agricultural Sustainability Support and Advisory Programme (ASSAP), and the continuing progress towards climate neutrality under Farm Zero C. The interest in Farm Zero C was proved by the 600 farmers that toured the farm during the Open Day in September. The year was capped off in October by a fantastic Open Week where we as shareholders got the opportunity to tour the new mozzarella facility and all the other upgrades to Ballineen, met the Carbery team and welcomed family and friends to learn about where our milk goes.

We have seen successes on the climate front with improvements in water quality areas being managed under ASSAP, and the continuing progress towards climate neutrality under Farm Zero C.

SUSTAINABILITY

Our major sustainability achievement this year was the announcement of the FutureProof bonus for all farmer suppliers. This bonus is designed to support farmers to meet our 25% emissions reduction target. For phase one of the programme, which involved agreeing to an ASSAP water quality assessment, we had great uptake and enthusiasm. These suppliers received 0.5c per litre on milk supplied in 2022. The intention of this bonus is to reward farmers who are carrying out sustainable farming practices, and to support and incentivise those who want to start. For 2023, the bonus will be 1cpl for those farmers who are: milk recording, using protected urea, focusing on improving EBI and have agreed to an ASSAP assessment.

It is important to Carbery that we are supporting in a tangible way what we are asking farmers to do on sustainability, and we hope for as much success with phase 2 of FutureProof as we had for phase 1.

We also had encouraging news in relation to the ASSAP programme this year. While farmers and wider society need to continue to focus on protecting water quality, we were pleased to see a 17% improvement in waterways nationally that are designated as priority areas for action (PAAs). These PAAs are where our ASSAP actions have been focused. This shows that a voluntary scheme, designed and implemented in partnership with farmers, can and does work. We need to keep up the good work here. Especially because we know that the future of derogation is linked closely to an improvement in water quality, which needs to happen quickly.

While fertiliser and other inputs remained highly priced, we learned to do more with less and have good lessons now to take with us into 2023. The high price of fertiliser concentrated our minds on making the best use of our slurry and being efficient with our fertiliser and when we spread it. Cost was the main driver here, but water quality and climate will be the main beneficiaries, if we commit to continuing to reduce levels of nitrogen.

COMMUNITY AND CONNECTION

While supporting our farmers with a strong milk price to make a viable living is crucial, it is only one element of the support we provide. With the cost and climate pressures facing farmers this year, our wider programme of support for physical and mental wellbeing grew in importance. While Covid meant that our January 2022 farmer welfare conference was again online, this didn't dampen the enthusiasm or the audience for our great speakers. From mindset with athlete Phil Healy and farmer and author John Connell to farm succession with Tom Curran of Teagasc, attendees were left with a wealth of knowledge to implement across the year. We also ran some mental health first aid training sessions with the co-ops and shared resources and support for farmers under stress via our social channels and the co-ops.

For the remainder of the year, once the threat of Covid had diminished, we were back in person with many of the events and occasions we had missed out on, from the Milk Quality Walk on the farm of the Shortens, worthy winners in 2021, to the Farm Zero C open day, the Carbery Open Week and the 2022 Milk Quality Awards in November. We were so pleased to be able to be back in person socialising, learning and supporting.

Above: Presenting our donation for Ukraine to the Red Cross with representatives from all four co-ops.

Right: Presenting Rod Sowders, CEO of Synergy Americas, with the Cork Chamber International Company of the Year Award, to hold there for US employees in Wauconda.

Below: With Enda Buckley and Jason Hawkins launching FutureProof

MILK PRICE AND MARKETS

We saw record milk prices paid to Irish farmers in 2022, however this was against the backdrop of very high input costs on farms. In this context we were pleased to be able to continue to pay the leading milk price across the year. Dairy demand was strong due to lower than predicted global supply rates. The outlook for milk prices in the early stages of 2023 is for base prices to fall. The Board has anticipated this with the decision to put €10m into the Stability Fund and we will continue in 2023 to ensure that the Stability Fund is made available in challenging markets.

OUR GLOBAL BUSINESS

I had the opportunity to travel to visit a few of our different sites and investments in 2022, and my thanks to all the teams that hosted me in the various locations. From checking in on our investment in savoury flavours in Illinois, to meeting the teams in High Wycombe UK and Trieste, Italy, I really valued the opportunity to connect and get to know those businesses better. We have world class facilities all over the world that we can be proud of, and I look forward to meeting more of our teams in the coming year.

Of course we have our own landmark investment and facility to be proud of closer to home in the form of the recently completed expansion at Ballineen. I hope every shareholder was as proud as I was during Open Week to showcase this fantastic project, and more importantly, the commitment and diversity of the team that we have at Carbery. It was a great week, and a much-needed opportunity to reconnect with neighbours, friends and colleagues.

Above: With the Board of Lisavaird Co-op at our site in Trieste, Italy

BOARD

We had some changes to the Board this year as we welcomed Vincent O'Donovan as the new Chair of Bandon and Vice-Chair of the Carbery Board and said goodbye to Vice-Chair Dermot O'Leary. I would personally like to thank Dermot for all his support during his time on the Board, and extend a warm welcome to Vincent. After more than 30 years dedication to Carbery, CFO Colm Leen announced his retirement in 2022. To ensure the stability of the business and a smooth transition, Colm is remaining with us as we find his replacement. Personally and on behalf of the Board, our thanks to Colm for his years of service to Carbery and congratulations on a fantastic legacy.

On behalf of the Board, our thanks to Jason, the executive team and all of the wider team at Carbery and across the world for steering us through a very difficult year. Their commitment to growing our business, delivering added value and paying a leading milk price in West Cork gives us confidence in the future of dairy farming, and creates a viable future for farming where young people can see a path forward, and the potential in it.

LOOK FORWARD

My priority and that of the Board in 2023 is to continue to pay a leading milk price to farmers and support our farmers through difficult downturns in markets. With pressures on milk supply coming from climate regulations, emissions reduction bands are likely to continue and we will be looking at growth areas, product mix and innovation that adds value to our business.

We will continue to invest to support farmers in their sustainability journey, which will be an ongoing top priority. We will support our shareholders through farmer health and wellbeing initiatives, social events and education and up-skilling.

Míle buíochas do gach uile duine a thug tacaíocht domsa agus do Carbery i 2022.

Le gach dea ghuí,

Cormac O'Keeffe, Cathaoirleach

Highlights

New Farm Zero C Visitor Centre

In April we opened a state of the art visitor centre on Shinagh farm to accommodate the huge interest in the project and provide an environment for farmers, students, academics and business to collaborate and learn about the project.

Cork Company of the Year

In May we were honoured to be selected as International and overall Cork Company of the Year 2022 by Cork Chamber.

Extra R&D centre space added to accommodate innovation in savoury flavours

A 12,000 sq foot expansion in Wauconda facilitated our savoury flavour innovation capabilities.

Ballineen Open Week

In October we welcomed 5,000 visitors, including farmer suppliers, families, community and key partners to tour our expansion and upgrades in Ballineen.

BRCGS
Food Safety
CERTIFICATED

Grade AA and A BRC for UK and Italian sites

Our teams in the UK and Italy worked hard to achieve accreditation from the British Retailers Consortium.

Almost 100% take up of FutureProof Bonus

We launched our FutureProof sustainability bonus for farmers who commit to implementing sustainable practices on their farms.

Financial Report

5-Year Review

* BEFORE EXCEPTIONAL ITEMS

CUMULATIVE CAPITAL EXPENDITURE

ALL NUMBERS IN MILLIONS OF EUROS

Q&A with CEO

Jason Hawkins, CEO

CEO BUSINESS REVIEW

We sat down with Carbery Group Chief Executive Jason Hawkins to get his thoughts on business performance in 2022, key highlights of the year, and priorities for 2023.

What are the achievements of the business you are most proud of this year?

Our employees and suppliers managed through an unprecedented situation with great resilience.

Emerging from Covid

A major highlight that united us globally for 2022 was successfully navigating through Covid-19, and finally being able to emerge from restrictions. Our employees and suppliers managed through an unprecedented situation with great resilience. It has, however, been a relief to everyone to have the freedom to meet locally and globally, to organise events, to see customers face to face and to reconnect with colleagues. The employee response to a flexible return to office and adapting to a new work environment has been excellent.

FutureProof

We were very pleased to launch our sustainability bonus programme, FutureProof in 2022. This is an initiative which has been a long time in planning. We knew we needed to support our farmer shareholders in their transition to implementing more sustainable farming practices, but we also wanted a programme that was simple, where the impact was measurable – this is key for us – and with action targeted towards the areas that will have the biggest impact on emissions and climate. The uptake for phase one in 2022 was close to 100% and this gives us a great foundation for phase two in 2023.

Recognition of our global team

I was also very proud of our selection as both Cork International Company of the Year and overall Cork Company of the Year, by Cork Chamber of Commerce. While I accepted the award, it was on behalf of our global team. I am clear that this recognition is a direct result of the work and contribution of our shareholders and colleagues around the world who make Carbery a success story and a great place to work.

Connecting with shareholders, suppliers and communities

We welcomed our suppliers, community partners, families and friends - close to 5,000 people - into our production facility in Ballineen in October for our Open Week. We showcased our cheese diversification project, expansion, and other business investments and developments. In the first Open Week since our 50th anniversary in 2018, this was the definition of a team performance. Every employee across the site was involved in preparing for this week, in giving tours, accompanying groups, manning stands and ensuring our site was visitor-ready. It was a huge effort from everyone, but I think the resounding positive feedback and pride that was evident from our shareholders, employees and visitors made it more than worth it.

Returning value to our shareholders

Finally, in a year of strong dairy market performance, but with pressures from high processor input costs, I was glad that we paid a leading milk price across 2022, and especially where this was needed to assist with the significant cost increases farmers saw on many farm inputs.

Left: With MEP Deirdre Clune at Open Week.

In 2022 we have seen major pressure on the agricultural sector on sustainability and reducing emissions. Where is the journey on sustainability going to go from here? What will Carbery's focus be on?

Our long-term focus on sustainability has been on creating leaders and educating interested farmers about sustainability. We have done this through the Carbery Greener Dairy Farmers programme since 2012, our partnership with UCC, and through partnerships with Teagasc like the Monitor Farms and Signpost Farms. This year we have expanded our focus to rolling that education and support out to all our shareholder suppliers. We have launched FutureProof which is intended to support our farmer suppliers, and in turn, Carbery, to meet our climate ambitions from a farm perspective. In 2023, suppliers who participate in FutureProof will receive 1cpl on milk supplied, in exchange for carrying out four measures; milk recording, ASSAP, focus on improving EBI and using protected urea. We are expecting significant uptake and measurable impact from these four areas. We will continue to evolve this model to support our farmers and their changing needs.

On other climate initiatives we are supporting, we continue to co-lead the Farm Zero C project, and to invest substantial funding, resources and expertise to support the project. The opening of our state-of-the-art visitor centre in Shinagh this year was a major highlight and has provided us with an excellent base to bring the learnings from the project to our farmers proactively. We also use Farm Zero C to communicate to a broader audience the great work that is underway in West Cork, and our innovative approach and commitment to sustainability generally.

Away from the farm, we have a significant programme of work to continue across all our sites globally to reduce emissions, and manage waste, energy and water responsibly. We have seen progress across all of these metrics this year. A major strategic development has been the calculation of our Scope 3 emissions across the Group (more information on page 42). An effective climate change strategy requires a detailed understanding of a company's greenhouse gas (GHG) emissions. In late 2021, we initiated an extensive Scope 3 emissions investigation across the Group in conjunction with the Carbon Trust. The end result of this project will allow Carbery to set carbon reduction targets for our Scope 1, Scope 2 and Scope 3 emissions in line with long term strategy development, aligned with the latest climate science – known as Science Based Targets.

We are very proud that our employees have as strong a commitment to sustainability as the organisation does. Many of our sustainability initiatives are employee driven and supported, and you can see the projects underway across the Group from page 39.

We will evolve our FutureProof model to support our farmers and their changing needs.

Below: Jason Hawkins received the Cork Company of the Year award with reps from Cork Chamber, and Vodafone.

People and community are two central pillars of Carbery's sustainability strategy. What have the major developments been on both this year?

Our people are the heart of our organisation, and we strive to never take this for granted. We have a range of projects at global and regional levels underway to improve and modernise the systems and processes that support our people and make sure we are providing a working environment where they can bring their best to work. In 2022 we began the roll out of a global HR Information System (HRIS), which will give us strategic insights into the capabilities of our people across the business and drive better decision making and planning.

We have a major project underway on building leadership capabilities and equipping our leaders with the skills they need for the future. Our culture programme continues to build an organisation that can respond to the demands and uncertainties of the future and sustain our success into the next phase. We believe that our people and our culture will be the drivers of our future success and we have focused on connecting and reconnecting our people with one purpose across the globe.

The fundraising and generosity of the Carbery community in 2022 resulted in a big response to the huge disaster in Ukraine. Our farmer suppliers, co-ops and employees came together to raise €90,000 for the people of Ukraine, under the auspices of the Red Cross and UNICEF. Our strategic charity partnerships with FoodCloud and the Skibbereen Charity Adventure Race in Ireland, with the Madagascar Development Fund and the Hatchery in Chicago, continue to be successful, with the organisations benefiting from financial support, from volunteer hours, expertise and resources from our global team.

Above: With the team in Thailand

Can you talk us through the business performance overall for 2022?

Our business performance in 2022 was very solid, which was very satisfying given the significant challenges around energy and inflation as well as managing through the other impacts of the Ukrainian crisis, and supply chain and other challenges which linger on from the pandemic.

Group turnover increased by 31% to €700.8m, while on a constant currency basis turnover increased by 27% year-on-year.

Group EBITDA (Earnings before interest, tax, depreciation (net of grants), amortisation of goodwill and other intangibles and exceptional items) increased by 4% to €52.1m (2021: €50.1m). On a constant currency basis EBITDA decreased by 4%.

Group EBITA (Operating Profit before interest, tax, amortisation of goodwill and other intangibles and exceptional items) increased to €32.8m (2021: €31.2m) reflecting a year-on-year increase of 5%. On a constant currency basis EBITA decreased by 6%.

For myself personally, and I know for our teams, a highlight of the year has been the opportunity to get back travelling, meeting with current and prospective customers in person and at industry events and reconnecting with colleagues and peers.

With markets achieving record strong prices, our dairy business had an incredibly strong performance in 2022.

We also continued to roll out our diversification strategy and pursue new customers in new markets. We built on our relationships in Asia with trade missions to the region, as well as specifically targeted products and campaigns, which has grown opportunities available.

In nutrition, our focus is on growing new customer segments, and prioritising innovation in those segments. Sports and infant nutrition continue to be growth areas for us, with a lot of our focus also on the clinical nutrition sector.

In our Taste division, Synergy, we have continued the integration of Innova, a savoury flavours business acquired in Chicago in 2021. The completion of this integration has also allowed us to leverage the portfolio of savoury products across our business both in the US and beyond. We have also been leveraging our unique taste modulation technologies, particularly around sugar reduction as well as our natural extract and essences capabilities globally. We are seeing return on our investments in our innovation programs and our R & D facilities. With Covid impacts largely behind us, we are seeing a major increase in customer visits in our facilities to partner with us on innovation.

What investments did we make this year? What investments are planned in the future?

Upgrades to our Wauconda facility in Illinois has allowed North American R&D personnel across sweet and savoury flavours to work together, leading to better opportunities for collaboration and innovation, as well as a better customer experience. We have a planned program of investments across all global sites to support and achieve our ambitious sustainability goals. These include technologies to better recover water, reduce reliance on fossil fuels and improve production efficiencies.

We continue to have an ambitious digital programme which is prioritising the modernisation of platforms that drive our business day to day. This includes the adoption of automation technologies such as Robotic Process Automation and Artificial Intelligence that allow our employees to continue to move their contributions up the value chain and increase our competitiveness in the market. Our data is a significant asset across the group and we intend to increase the adoption of using data to drive our tactical and strategic decisions.

We will continue to pursue opportunities for growth via acquisition, and our focus will be on assessing acquisition opportunities.

We will be creating and presenting a new strategy to our Board this year which will outline the plan for the business into the future.

What are the overall priorities and plans for the business in terms of growth, strategy and investment?

Our current five-year strategy has been successfully implemented and will come to an end in 2023. We will be creating and presenting a new strategy to our Board this year which will outline the plan for the business into the future. The new strategy will build on our current technologies, markets and customers in the first instance. We will also look to leverage our global expertise and the collective strength and experience of our global teams.

Our strategy will prioritise business growth and sustainability equally and any planned investments in capital and acquisitions will be aligned with and supporting our key objectives in these areas.

Our business strategy will be supported by a new Environmental, Social and Governance (ESG) strategy, ramping up our existing climate neutral ambition and guided by international emissions reduction targets.

Our long-term investments in innovation and in new, high-potential markets will continue, with a planned opening of a new Carbery Group Asia Business and Innovation Centre in Singapore in 2023 and plans underway to upgrade our R&D facilities in Ballineen. We will continue our focus on digitalisation and our people as enablers of growth.

What is the outlook on dairy markets and milk price for 2023?

Currently there is a lot of volatility and uncertainty in dairy markets. Markets have been negatively impacted by poor demand as we approached the end of 2022 and continuing into 2023, caused by higher dairy prices as well as global inflationary and recessionary concerns. In addition, global milk supply improved at the end of 2022 which put pressure on prices and continues to weigh on dairy markets. The uncertainty around market performance continues and the outlook for the first half of 2023 indicates that markets will continue to be much weaker than in 2022. The industry is expecting to see milk price corrections more reflective of these weaker markets.

What are your key priorities for 2023?

While there will be challenges to manage in 2023, overall we have a lot to look forward to. I am excited about the opportunity to set the future direction for the business this year with our new strategy. We have unpredictable times ahead, and our strategy will need to be able to embrace that volatility and see the opportunity in it.

Delivering our results and future growth can only happen with great people. Focusing on developing the right mindset to drive innovation and effectiveness is a key priority for the next number of years. Harnessing the investment in our new HRIS systems and HR programs will enable us to ensure we have the right people who are ready for what comes next.

I will also be focused on ensuring we can maximise returns to farmer shareholders even as the markets continue to be volatile. We will continue to ensure we are paying a leading milk price to our suppliers and building a business that is fit for the future is a key part of enabling us to do this.

Our focus on sustainability, both on farm and in our own facilities, will continue to be a top priority. We will have our full Scope 3 emissions profile in 2023 and our Science Based Targets will be set from this. On farm, the continuing evolution of FutureProof, the exciting developments underway at Farm Zero C (the €3m investment for biorefining and anaerobic digestion from the Department of Agriculture) and supporting farmers in their sustainability journey will be key areas of focus.

Top: At the charities committee donations presentation day.
Bottom: Showcasing Ballineen during a successful Open Week.

Finally, my thanks as always to the Board of Carbery, my colleagues on the Global Leadership Team, our farmer shareholders, and all our global employees, for their support, advice and commitment this year.

We are proud to produce in and support our communities in West Cork, and around the world.

Jason Hawkins, CEO

Business Review

Three specialist businesses sharing a common ambition, to enrich lives.

Dairy

We have been making high quality cheese for over 50 years, using premium grass-fed cow's milk from family-owned farms in West Cork.

Nutrition

We develop, produce and market nutritional ingredients for the performance and lifestyle, infant formula and nutrition markets.

Taste

We create innovative solutions for our flavour customers in taste and natural extracts.

Dairy Business Update

Our Dairy business delivered a strong performance in 2022, against a backdrop of on the one hand, record prices for milk and in turn dairy products, and a mixed year in terms of levels of supply. Global events such as the war in Ukraine and continued issues related to Covid in China drove continued and unprecedented volatility across all commodities in the dairy mix.

STRONG PORTFOLIO, DELIVERING FOR CUSTOMERS

Total cheese production in 2022 was similar to 2021 levels. In our second full year of mozzarella production, all product was placed in the market. We have quickly established strong stability in this business and have built a strong customer base across Europe and Asia, particularly in Japan. Our portfolio flexibility across mozzarella and cheddar is a key differentiator for us in delivering the best returns from the markets we serve.

Cheese production in 2022

63,000
metric tonnes

51,000t Cheddar

12,000t Mozzarella

GROWTH IN CHEDDAR THROUGH VALUE-ADD

The focus for our cheddar business continues to be diversification of the product mix towards value-added products. Throughout 2022, we continued to develop and strengthen strategic relationships with partners and develop relationships with end customers. Activity in the market post-pandemic is normalising and food service business is returning to normal levels. Global milk supply was down significantly in 2022 leading to reduced stocks across the board. Ongoing restrictions in China across 2022 impacted demand for all dairy products. As the restrictions start to be relaxed in early 2023 there are signs of some improvement.

MOZZARELLA DEMAND BUOYANT

Market demand for mozzarella continued to be buoyant in 2022, driven by post Covid recovery, weak milk supply and low stock in the marketplace. Carbery has brought on board multiple strategic mozzarella customers across several geographies.

The key markets for our mozzarella are Ireland, UK, Asia and Europe and we continue to develop recipes aligned to the varying needs of consumers across these key markets. We also continued to build strategic partners and customers through our wider portfolio offering of heat stable, low fat, grilling cheese & frozen varieties (for customers in South East Asia).

Our portfolio flexibility across mozzarella and cheddar is a key differentiator for us in delivering the best returns from the markets we serve.

IRELAND

MARKET TRENDS

Convenience is key for Irish cheese consumers and both slices and grated formats are growing, with volume share of 26.4% and 39% respectively. Blocks have traditionally been the most popular format for cheese in Ireland, however in 2022 blocks continue to decrease in volume share and now stand at 34.6%. The growth in grated was kickstarted during the pandemic due to more people cooking from home. Forecasted reduction in disposable household income looks set to sustain this market, demand for cheese slices is driven by school lunches and summer camps.

While private label cheese, with an 86% share, continues to dominate the Irish retail market, our Irish brands delivered a strong retail performance on a volume and value basis in 2022 driven by new marketing campaigns for both trade and consumers.

IRISH RETAIL MARKETING ACTIVITY

For the Dubliner range, we continued to build on the successful packaging relaunch from 2021. Promotional campaigns ran throughout the year including ‘Distinctively Dubliner’ and ‘Elevate your meal with Dubliner’. Consumers were reminded of its unique taste and encouraged to use Dubliner in a range of recipes through a QR code on pack.

Positioned as a ‘Cracking Cheese for Snacking’ Carbery Cracker continues to dominate the snacking space in the cheese market. With a focus on provenance, a key message for consumers in 2022 was Carbery Cracker being a product of West Cork. As part of this promotion we ran a major competition over the summer months with the lucky person winning a hotel stay in West Cork.

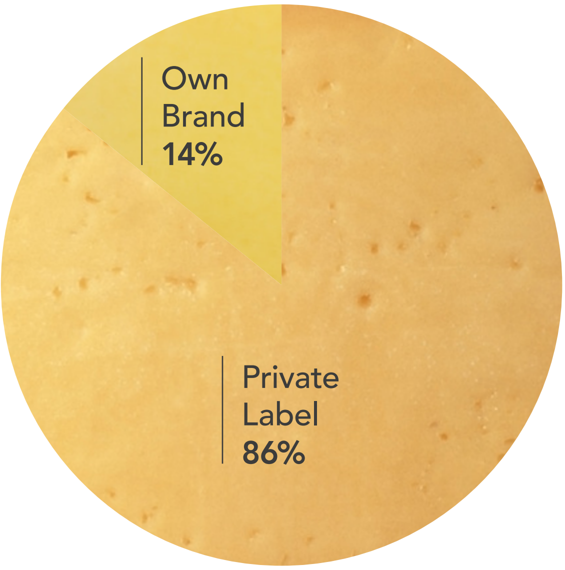
MULTI-AWARD WINNERS

In 2022 our cheeses won 6 golds at the International Cheese Awards and Dubliner Cheese won 2 bronze Awards at the World Cheese Awards.

Product and marketing innovation has enabled us to quickly build direct relationships with customers in Japan, Korea and other Asian countries.

WORLD

In Ireland, private label market grows share.



Convenience is key for Irish consumers, with grated being the best selling format.

EXPORT DIRECT

We continued to develop focused innovation to meet consumer needs in our target markets. With a particular focus on Japan, we launched a tailored Japanese portfolio which was launched as part of a Trade Mission supported by Bord Bia and the Minister for Agriculture.

Carbery's cheese carries the Verified Grass Fed and Origin Green standards by Bord Bia, which are a key element to communicating Carbery and Ireland's sustainability and natural credentials globally.

ORNUA

Our partnership with Ornua continues to be a core part of our business strategy and growth plans.

We saw a number of successful launches with Ornua this year. These included, a successful seasonal collaboration with McDonald's UK and Ireland, and growth in mozzarella volumes being supplied.

MARKET SPOTLIGHT
JAPAN & EAST ASIA

Our ability to develop targeted innovation, combined with a wide portfolio offering, continues to be an advantage for us as we build a customer base in South East Asia and in Japan. Our wider portfolio offering of Heat Stable, Low Fat, Grilling Cheese & frozen varieties enabled us to continue to build strategic partnerships and customers throughout the region.

NEW PORTFOLIO OF SPECIALIST CHEESES LAUNCHED

The Carbery Dairy brand has continued to gain ground geographically. Japan continues to be a key strategic market for us and we continued to strengthen relationships there – focusing on Cheddar and Cheese Extra/ High-Spec Cheese. On a trade mission to Japan in September with Bord Bia we launched a new portfolio, with customised names and brochures for the Japanese Market. This portfolio has a primary focus on:

- Ireland Grass-fed Cheddar (Natural cheddar)
- High-Spec Cheese (Cheese Extra)
- Ireland Grass-fed Mozzarella (Superchilled)
- Speciality (Uma Mizen & Inclusions)

5 TRENDS SHAPING DAIRY MARKETS

CHINA IS A MARKET MAKER

China is a significant contributor to global dairy demand and sentiment in the market. China imports of key powders of skim milk powder (SMP), whole milk powder (WMP) and and infant milk formula (IMF) have been down 20% year on year which has a knock-on impact on the overall global demand.

INFLATION CONCERNS CONTINUE

There is growing concern about the impact of inflation on the demand side which is a global issue since Q4 2022. The fact that supplies remain constrained in many parts of the dairy producing world is controlling the supply side in what is a delicately balanced market.

CLIMATE TARGETS DRIVE SUSTAINABILITY

On the back of the climate action plan setting legal limits on emissions from agriculture, Ireland's leading dairy farmers are seeking ways to become more sustainable. Agriculture must reduce emissions by 25% before 2030.

CONSUMERS LOOKING FOR HEALTHY GOOD CHOICES

Animal products are still central to consumer diets. However, consumers want to know that the products they choose are the most sustainable options. They also want products that are high quality and nutrient dense. While some consumers remain wary of carbohydrates and continue to focus on the reduction of carbs in their diet, some are looking for permission to indulge with 'better' carbs.

FOOD SERVICE PROSPECTS HAMPERED BY HOUSEHOLD BUDGETS

The Irish foodservice, or 'out of home', industry experienced significant growth of 61% in value to reach over €8.2 billion in 2022. This represents an almost full recovery to pre-pandemic levels, with a forecast for modest growth of 11.6% in 2023. However 77% of consumers are concerned about their finances and changing their out of home consumption to reduce costs, which will have consequences for food service.

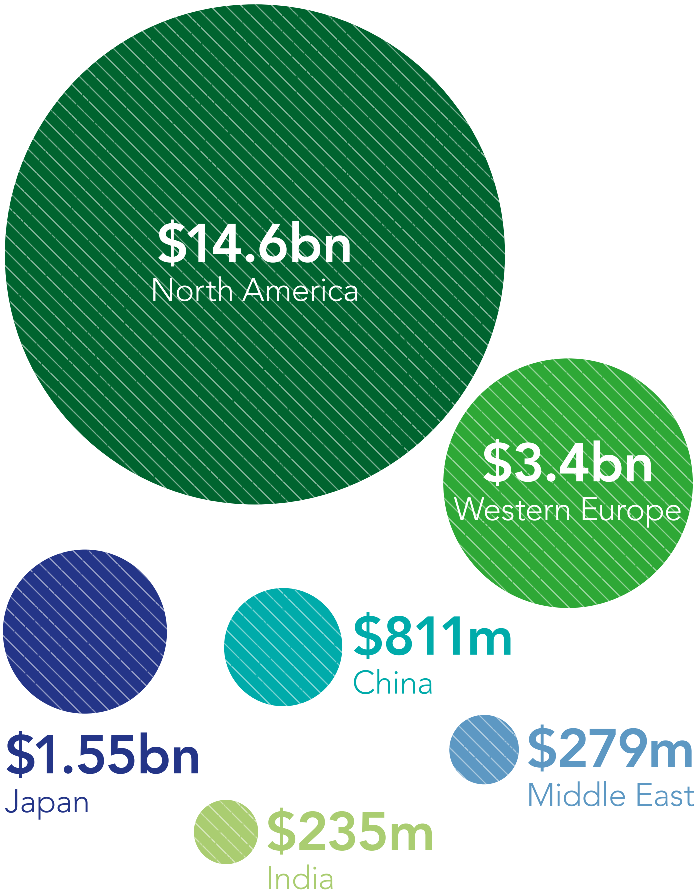
Nutrition Business Update

Carbery's nutritional ingredients business has had another strong performance in 2022. Our whey-based ingredients are used in nutritional applications such as Infant Formula, Sports Nutrition and Clinical Nutrition. Our customers are located across geographical markets including the Americas, Europe, Asia, Africa, Oceania and the Middle East. Following the invasion of Ukraine in February 2022, we discontinued our customer development activities in the Russian market.

EXPANDING INFANT FORMULA CUSTOMER BASE

Carbery is an established and respected supplier to most of the world's leading infant formula companies and our whey protein ingredients are used in a multitude of brands. We have an exciting new product innovation pipeline, and we are closely collaborating with our customers in bringing these advanced ingredients to market.

Estimated size of the sports nutrition sector in key markets



Data from Euromonitor

80% of whey-based ingredients used in nutritional applications

Customers in **30** geographical markets

CLINICAL NUTRITION A POTENTIAL AREA FOR GROWTH

The clinical nutrition sector offers strong potential for advanced whey-based ingredients and during 2022, we have been working on joint projects with the key players in this market. Applications include oral nutritional supplements which provide macro and micronutrients. These products are needed within the acute and community health settings for individuals who are unable to meet their nutritional requirements through oral diet alone. In September 2022, Carbery exhibited at the ESPEN Conference in Vienna. The European Society for Clinical Nutrition and Metabolism (ESPEN) promotes research in the field of parenteral and enteral nutrition.

SPORTS AND ACTIVE NUTRITION ARE HIGH GROWTH CATEGORIES

The sports nutrition sector, and its evolution into active nutrition, continues to be a high growth category for both our protein and flavour ingredients. Consumers are looking to adopt positive behaviours towards exercise and nutrition. This has been particularly noticeable post the Covid-19 pandemic.

This shift in the consumer landscape has ensured that the sports nutrition sector remained resolute over the last few years, despite the external pressures that other consumer goods faced in the market. The overall market for sports nutrition in North America topped $14.6 bn in 2022 with Western Europe as the second largest geography in terms of revenue. Both geographies are expected to grow at an annual compound growth rate (CAGR) of between 10-12% over the next 5 years. The enthusiasm for sports nutrition also extends further to emerging markets such as Japan, India, China and the Middle East, with an estimated CAGR of between 8-15% for the next 5 years.

FOUR MARKET TRENDS SHAPING THE FUTURE

SPORTS NUTRITION FOR ALL

The primary drivers of growth in whey protein are centred around the expanded accessibility of sports nutrition, moving beyond performance and aesthetics to a market increasingly defined by a healthy 'active' lifestyle. Trends such as convenience (bars, and drinks), plant, flavour and immunity have been the focus of new innovation.

MARKET DYNAMICS INCREASE ACCESSIBILITY

Market dynamics such as smaller pack sizes, retail proliferation and the growth of online retail continue to ensure sports and active nutrition products are more accessible than ever.

CORE CONSUMERS REMAIN THE KEY USERS

Even with the evolving market dynamics and the growth of the health and wellness sectors, the core sports nutrition consumer remains very relevant to our business.

In fact, at a time when consumers are suffering significant price increases because of raw ingredient pressures, it is the core consumers who have been resolute with a continued high rate and frequency of purchase.

THE CONTINUUM OF SPORTS NUTRITION CUSTOMERS

The definition of sports nutrition and its evolution to active nutrition has changed and extended well beyond its traditional boundaries. There is an opportunity in sports nutrition for all types of brands and products, whether it is with the core consumer or the new consumer, in powders or bars, online or in retail.

As experts in developing protein-based nutritional products, we are very familiar with the taste challenges that can often occur. We work closely with our flavour colleagues in Synergy to combine our knowledge of whey protein with their flavour expertise.

MARKET SPOTLIGHT
RECONNECTING WITH OUR CUSTOMER

FIE TRADESHOW PARIS 2022

Launched in 1986, Food Ingredients Europe (FIE) is the global meeting place for all stakeholders in the food ingredients industry. The show brings together the world's leading food and beverage suppliers, research and development, production, and marketing specialists. It showcases the most diverse range of new and innovative ingredients and services. It's the perfect event to promote Carbery's wide portfolio of science-based, market-leading, whey protein ingredients.

FIE returned to Paris but in a new venue, connecting suppliers of food ingredients with relevant global buyers for another successful event. Nearly 22,000 people attended from 188 countries with 932 exhibiting partners. Carbery has been exhibiting at FI Europe since 1989 and it's always been a great experience; growing market interest and creating new business opportunities.

This year, we partnered with Bord Bia, under the Origin Green umbrella, with five other Irish companies at the Ireland pavilion who were all showcasing premium quality, sustainably produced dairy and seafood ingredients to existing customers and global buyers of Irish food and drink. In 2022, Irish dairy exports have reached an estimated €6.8 billion, making it the largest food and drink export category.

It was a welcome opportunity to reconnect with customers not seen in person for a few years, due to the pandemic, and to start building relationships with new potential customers. It was a great event to showcase products, with Optipep4Power, our clinically proven hydrolysed whey

protein ingredient being the key focus on the stand. As experts in developing protein-based nutritional products, we are very familiar with the taste challenges that can often occur. We work closely with our flavour division, Synergy, to combine our knowledge of whey protein with their flavour expertise. This unique combination of expertise means we have unrivalled ability to develop products that strike the perfect balance of exceptional taste and outstanding performance. In partnership with Synergy, we developed hot high-protein beverage and protein bars applications which drew a lot of buzz and attention from key industry decision makers, creating a very high footfall over a busy three days.

Before the show closed out for another year, the Carbery and Synergy team took the opportunity to host some valued customers in the City of Lights, on an evening cruise on the still waters of the Seine. Relationships were built, deals were done and enjoyment was had while the Eiffel tower glimmered in the background.

MARKETPLACE SUSTAINABILITY

LIFE CYCLE ASSESSMENT OF CARBERY'S WHEY PROTEIN PRODUCTS

As part of our commitment to a sustainable and responsible supply chain, and as a further step on our journey to calculating our full emissions profile, Carbery embarked on a project in 2022 to quantify the Life Cycle Analysis (LCA) and carbon footprint of the whey protein ingredients produced at our facility in Ballineen, Co. Cork. LCA is a method used to evaluate the environmental impact of a product through its life cycle encompassing extraction and processing of the raw materials, manufacturing, distribution, use, recycling, and final disposal.

Working with the LCA expert who is also working on our Farm Zero C project, we used data from 2020 as a baseline and assessed impacts from farm emissions, milk transport, power and packaging. The process identified areas in our production, supply and distribution process where we can make improvements, and a dynamic carbon footprint model was developed, which will help improve our sustainability impact in the longterm.

Taste Business Update

Our Flavours Division, Synergy, again had a strong performance in 2022, against a challenging backdrop. Global disruptions caused by the war in Ukraine, soaring energy prices and the pandemic have brought a new dimension of business complexity. The challenges of price inflation and rising energy costs, combined with a conservative, risk averse attitude within the food and drink industry, post the Covid-19 pandemic, and with restrictions still very much in place in Asia, have meant careful management of pipeline and opportunities.

MARKETS REVIEW

The global food flavours market was valued at $12.7 billion in 2020, and is projected to reach $19.2 billion by 2030. Asia-Pacific is the highest revenue contributor, and is estimated to reach $6 billion by 2030.

Rise in disposable income and change in food habits are the factors that drive the growth of the food flavours market. The beverages industry has a significant impact on the growth of the food flavours market. The increase in demand for ready-to-eat meals & fast food is a key driver for the food flavours industry across the globe. Innovative technologies, introduction of new flavours, and heavy inflow of investment in R&D activities are the other factors that supplement the growth of the food flavours market. There is an upcoming trend of using natural flavours, owing to a rise in health awareness. Furthermore, high demand across European countries to produce commercialised clean label or green food products that are free of additives propel the growth of the natural flavours market.

Our Ohio and Brazilian businesses finished strong, recovering fully from the past two years and the impact of the pandemic.

OVERALL BUSINESS PERFORMANCE

In the US, the team found innovative solutions to the supply chain and labour disruptions left over from the pandemic and we rebounded on many fronts. Our Ohio and Brazilian businesses finished strong, recovering fully from the past two years and the impact of the pandemic. In Europe and Asia we saw a positive top line growth versus 2021, with all sites showing performance normalisation after the pandemic. The team in Europe developed an ambitious plan to contain the significant cost increases in raw materials and energy with full benefit impacting 2023.

COLLABORATING FOR SUCCESS

The Synergy team has established collaborations in the space of highly sustainable alternative protein (flavouring and applications) production as well as mining beer/spirits and coffee side-streams for novel applications and value-added products.

PLANT-BASED TASTE

We have also focused on the challenges of flavouring plant-based foods. Consumers looking for dairy alternatives to vary their diet look for a taste more like traditional dairy, indulgent with a creamy mouthfeel. Synergy's role in this category is to support our customers in developing products that taste better, improving the aftertaste and reducing bitterness that you normally get working with alternative proteins.

12,000
square feet expansion of R&D facilities in Wauconda

BRC
accreditation achieved for Italy and UK sites

Continued leverage of
new savoury flavours
portfolio in US

INNOVATIVE CAMPAIGNS

As part of our ongoing flavour exploration journey and following on from last year's exciting flavour trends, which took its inspiration from the Americas, in 2022 the research turned to East Asia to uncover a hotlist of nine emerging, mainstream, growing and established flavours with growth potential in the global sports nutrition market.

Our journey of discovery began with the harvesting of flavour ideas and inspiration from influential bloggers, food writers and futurologists. Then we benchmarked with real data such as product launches and global search trends.

Finally, our experts in flavour and sports nutrition assessed and refined to create our hot list; only those that they felt had true potential in the market making the final cut.

INVEST FOR SUCCESS

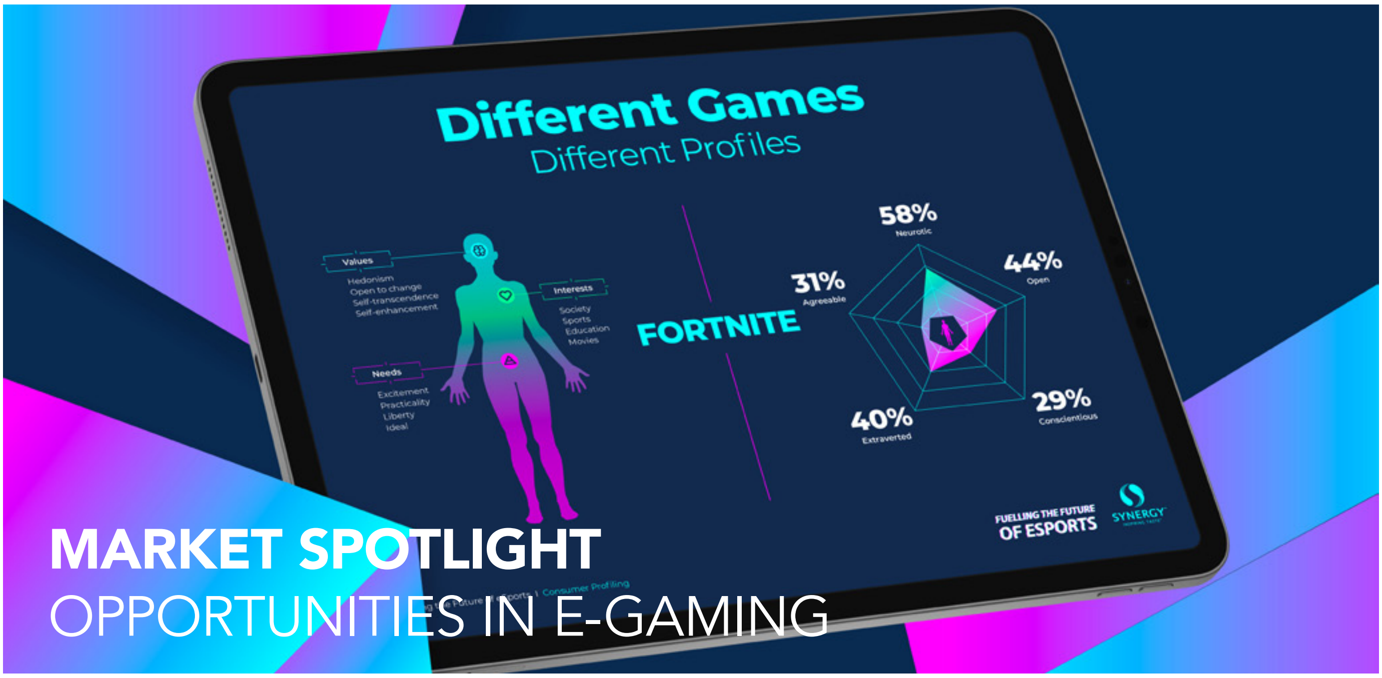
With the purchase of Innova and their savoury flavour capabilities in 2021, integration activities are nearing completion, culminating in the relocation of our savoury technical team to a new R&D center in Wauconda. This construction of a 12,000 square foot addition allowed us to bring our end-to-end capabilities to our Wauconda campus. This investment allows us to fold our colleagues into our collaborative, creative culture and provide direct access to other onsite resources such as sensory, analytical services and regulatory support.

Planned upgrades to savoury operations also progressed including expansion and modernisation of spray drying, dry blending, liquid reactions and pan drying. Additional upgrades to air-handling systems are underway and will be complete in 2023.

Synergy European and Asian sites also received continuing investment in operations. Grade AA BRC accreditation has been achieved for the UK site and Grade A for the Italian site. The UK site has seen investment in an oxidiser and resin floor & automated doors have been installed at the Synergy site in Trieste. Trieste has also commissioned the first spray dry trials on a pilot scale spray dryer.

Recognising the strategic importance of Asia for Synergy Flavours, our presence in the region is going to be expanded by the opening of the Carbery Group Innovation and Business Centre in Singapore in 2023.

With the purchase of Innova and their savoury flavour capabilities in 2021, integration activities are nearing completion, culminating in the relocation of our savoury technical team to a new R&D center in Wauconda.



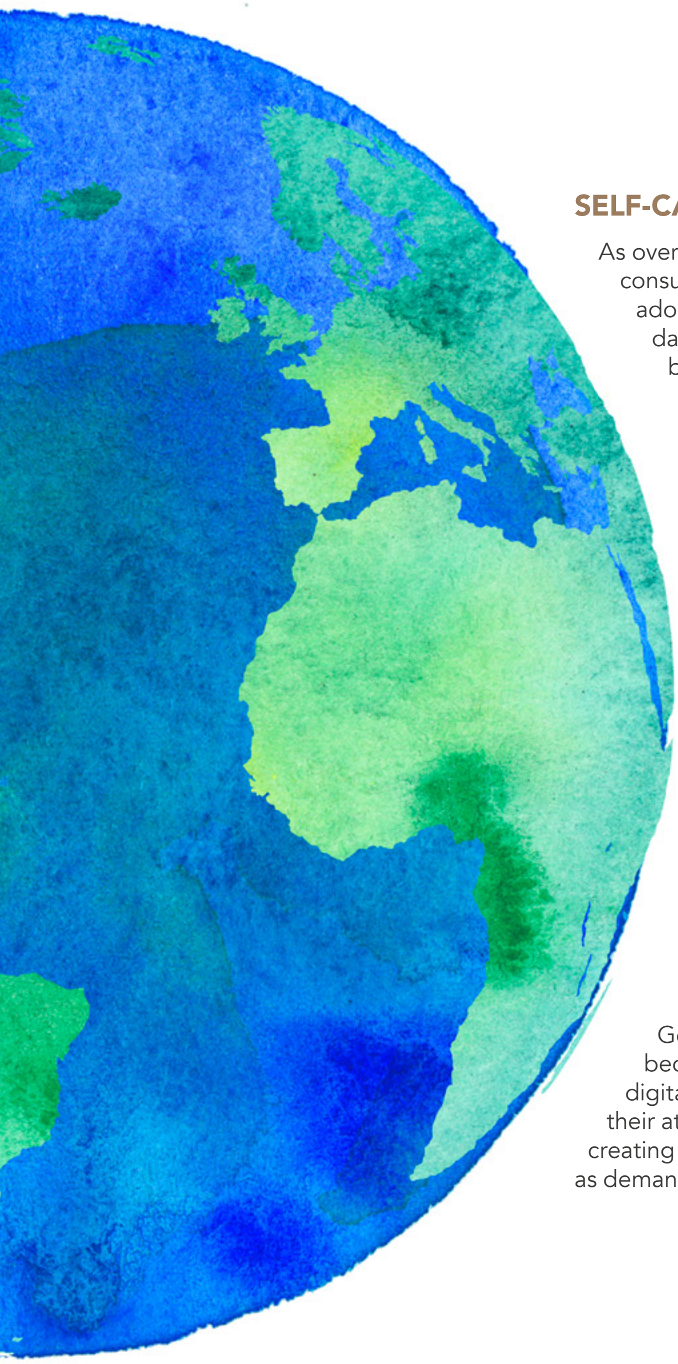
MARKET SPOTLIGHT
OPPORTUNITIES IN E-GAMING

We published a whitepaper titled "Fuelling the Future of Esports", maintaining Synergy's position as an original thought leader and category expert and drawing on years of experience in delivering captivating taste performance in high protein products.

Esports and video gaming are two of the fastest growing and most dynamic markets in the world. The global gaming market is now worth around $152bn but continues to register significant (9.6% year-over-year) growth. Not only that, but gaming has near global appeal, with significant markets in most parts of the world.

Products which can improve energy, focus and performance will always be appealing to the modern video gamer, but there is also room for other novel products such as meal replacements, healthier snacking or even products to support postgame relaxation. How to make sure the products taste great is Synergy's role. This campaign has been a global campaign and in Asia the team, leveraging market data on esports in Asia, has created a range of gaming flavour concepts with very good initial feedback from customers.

GLOBAL FLAVOUR TRENDS



SELF-CARE

As overall trends in health and wellness continue to expand, consumers are taking a holistic approach to self-care, adopting a strategy of mindfulness and redefining their day-to-day activities. The trend has been adopted by nearly every generation and the drivers include burnout, wellness, health, mindfulness, self-acceptance, smart nutrition and comfort food.

ALTERNATIVE LIVING

Plant-based products are shaping the future of food and beverage, offering a unique way to deviate from the norm. As innovation continues, the taste, texture and health benefits will only improve.

EDIBLE ESCAPISM

The pandemic changed the way we see food and beverage. We became chefs whipping up ethnic cuisines in our kitchens, bartenders mixing up premium drinks and baristas pouring ourselves the perfect cup of coffee to start the day. And we did it all from the comfort of our homes.

DIGITAL NATIVES

Generation Z is called the digital native generation because they don't know a world without computers, digital devices and social media. Brands are now turning their attention to these new kids on the block, focusing on creating opportunities for a tailored approach to generations as demand for mass personalisation continues.

MARKETPLACE SUSTAINABILITY

SYNERGY SWEETNESS HELPS REDUCE SUGAR IN DRINKS

Sales of non-alcoholic beverage and premium soft drinks continue to rise. Led by Millennials and Gen Z we are seeing strong innovation across these areas with new flavours and exciting combinations appearing. Manufacturers' focus is now on reducing sugar content to develop better nutritionally balanced drinks. This is something which has created exciting opportunities in the UK for Synergy in 2022, with our taste modulation solutions and application expertise.

In 2022 Synergy worked in partnership with customers and key manufacturing partners to deliver outstanding ranges of regulation-compliant soft drinks, packed with complex flavours. Working with partners, we ensured the right blend was used for each beverage flavour profile to optimise and tailor taste, while adhering to health guidelines.

Working on sweetness solutions has been a priority for our team in Asia as well. Thailand's government is planning to increase the excise tax on sugar-based drinks in 2023. Beverage manufacturers are under growing pressure to reduce the sugar content of their products. The Synergy Asia team's 'sweetness solution' portfolio helps deliver a reduce sugar recipe that doesn't compromise on sweetness, mouthfeel, and overall flavour delivery.

MARKETING INITIATIVES

Our teams were delighted to make a full return to tradeshows and in person conferences. Opportunities for business were secured from new and existing customers.

1/ CHEESE TEAM AT SIAL, PARIS

In October, the cheese team attended SIAL, a leading global trade fair for the food and beverage industry. Carbery were part of the Origin Green stand at the Paris event.

2/ NUTRITION IN THE MARKETPLACE

During 2022, the Carbery nutritional team attended international exhibitions such as VitaFoods (Geneva), IFT (Chicago), Supply Side West (Las Vegas) and Food Ingredients Europe (Paris) where ingredients such as our Optipep4Power were promoted.

3/ ONSITE VISITS IN BALLINEEN

It was great to see the return of customer meetings onsite.We held many ideation and innovation sessions in our new collaboration suite and kitchen where our onsite culinary chef demonstrated applications of our large cheese range in a variety of recipes for tasting.

4/ IN JAPAN WITH BORD BIA

In September, Bord Bia launched the Asian leg of two EU co-funded campaigns promoting European beef, lamb, dairy from Ireland, as part of Bord Bia's ministerial-led trade mission to Japan. It was an opportunity for Carbery to showcase our sustainably produced, grassfed cheese portfolio.

5/ IFT CUSTOMER EVENT

We hosted an event during IFT in Chicago for Synergy and Carbery customers which demonstrated our unique flavours expertise.

6/ CITRUS FLAVOURS ROUNDTABLE SESSION

At the Spirits Strategies and Innovation Conference the European team hosted an interactive roundtable session on why citrus flavours aren't the simple choice and can inspire innovation with new twists and pairings.

7/ SYNERGY US

Our teams were delighted to make a full return to tradeshows and in person conferences such as the Institute of Food Technologists and the Natural Products Expo in pursuit of new business in the US. Opportunities for business were secured from new and existing customers.

8/ PAIRED TO PERFECTION

In September, the Synergy team presented paired to perfection beverages at the Innovation In Non-Alcoholic Beverage Conference in London. During the session the participants had the opportunity to taste different cuisines alongside perfectly-paired drinks.

1

2


Origin Green IRELAND
IRELAND
CARBERY
Optipep
Optipep
HYDROLYSED WHEY PROTEIN at its best

3

4


BORD BIA

5

6

7


SYNERGY
Extracts
No. 1 in potato starch and potato protein
Alliance Team
SYNERGY

8


SYNERGY

Sustainability

Our overall goal is to be a sustainable, responsible business, and we give as much weight to how we perform on sustainability as we do to our financial results.

We take seriously the role of business to drive change and be a leader on climate ambition. We have many areas to work on, but our commitment is shared and driven by our employees, our shareholders and our communities around the world. The following pages showcase our progress on our sustainability goals, and capture our environmental performance, but also the impact we aim to have on our people, our communities, our supply chain and our marketplace.

With our farmer suppliers, communities and wider society — by sharing benefits where we operate and making a positive contribution.

INTEGRATING SUSTAINABILITY ACROSS THE BUSINESS

For our customers — by helping to shape a more sustainable food future.

Carbery company operations — by running a sustainable, efficient, responsible and profitable business.

MARKETPLACE SUSTAINABILITY | ENVIRONMENTAL SUSTAINABILITY | OUR SUPPLY CHAIN | OUR PEOPLE | OUR COMMUNITY

ENVIRONMENTAL SUSTAINABILITY

OUR APPROACH

We strive to produce and deliver food responsibly – in a way that respects people, their nutritional requirements, and their environment.

At the simplest level, this means providing more from less.

We apply global standards to manage the environment and how we engage with communities, and we work to continuously improve our performance.

Our target is to have net zero emissions across all our manufacturing sites by 2035. In tandem with reducing Scope 1 and 2 emissions, we are now making major efforts to reduce Scope 3 emissions across the Group, especially at farm level. Over 80% of Group energy is provided via natural gas. In order for us to decarbonise our manufacturing sites, we will have to source sustainable renewable energy and this is a key priority for us.

> ***Carbery will be measured into the long term by more than just our annual financial results.***
>
> Jason Hawkins
> CEO

GROUP 2022 HIGHLIGHTS

-5.5%

Carbon Emissions

This is our total 2022 Scope 1 and 2 emissions - those attributed to operations and fuel use.

-17.7%

Production GHG intensity

Production intensity is emissions produced compared to level of production.

-8.4%

Water Use

Due to an ambitious program of water reduction across the Group.

-44.7%

Waste to Landfill

Our ambition is to achieve zero waste to landfill.

BENCHMARKING SCOPE 3

HOW WE MEASURE EMISSIONS

Under the GHG Protocol, emissions are measured under a scoping framework based on the attributable source of the emissions. Emissions measured under Scope 1 & 2 are those emanating from operations and energy consumption. Scope 3 emissions are those that a company is responsible for up and down the value chain, including raw material production, transportation, distribution, business travel and waste disposal.

In late 2022, we completed an extensive Scope 3 emissions investigation across the Group. Taking 2020 as the baseline year, we worked in conjunction with the Carbon Trust to ensure that all calculations adhered to the GHG Protocol's Scope 3 standard.

The results of the investigation shows that our Scope 3 emissions are dominated by dairy inputs. Of the total group emissions of just over 1.250 million tonnes, 90% of this is attributable to Carbery, of which 76% comes from emissions associated with milk from our farmer supplies.

This represents an opportunity for Carbery and our farmers, as a small reduction at farm level will have a major impact on group emissions.

OUR DECARBONISATION AMBITION

Our aim is to achieve net zero emissions for Scope 1 and 2 emissions across all our sites by 2035. This will largely be achieved through the decarbonisation of our existing energy sources.

Signing up to Science Based Targets (SBTs) before the end of 2023 would mean Carbery having to reduce its Scope 1 and 2 emissions by 4.2% annually and Scope 3 emissions by 3.1% annually.

As part of Carbery's bank refinancing, completed in February 2022, we were proud to take an industry leading position in signing up to Sustainability Linked Loan principles by agreeing ambitious Sustainability Performance Targets (SPTs) through 2022 to 2026 for water consumption, waste to landfill and Scope 1,2 and 3 related sustainability indicators.

Science Based Targets are greenhouse gas emissions reduction targets that are in line with the Paris Agreement – to limit global warming to below 2°C above pre-industrial levels and pursue efforts to limit global warming to 1.5°C.

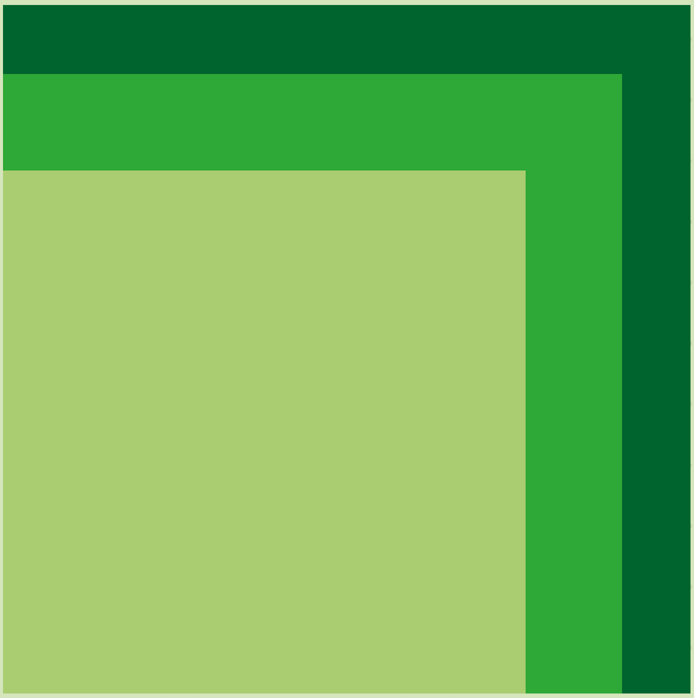
Scope 1 — Direct emissions from operations

+

Scope 2 — Indirect emissions from purchased energy

Scope 3 — All other emissions associated with company's activities

SCOPE 3 EMISSIONS (in tCO_2-eq)



1,182,847 Total Carbery Group

90% from Carbery Ireland

76% from Dairy Farming

GLOBAL ENVIRONMENTAL INDICATORS

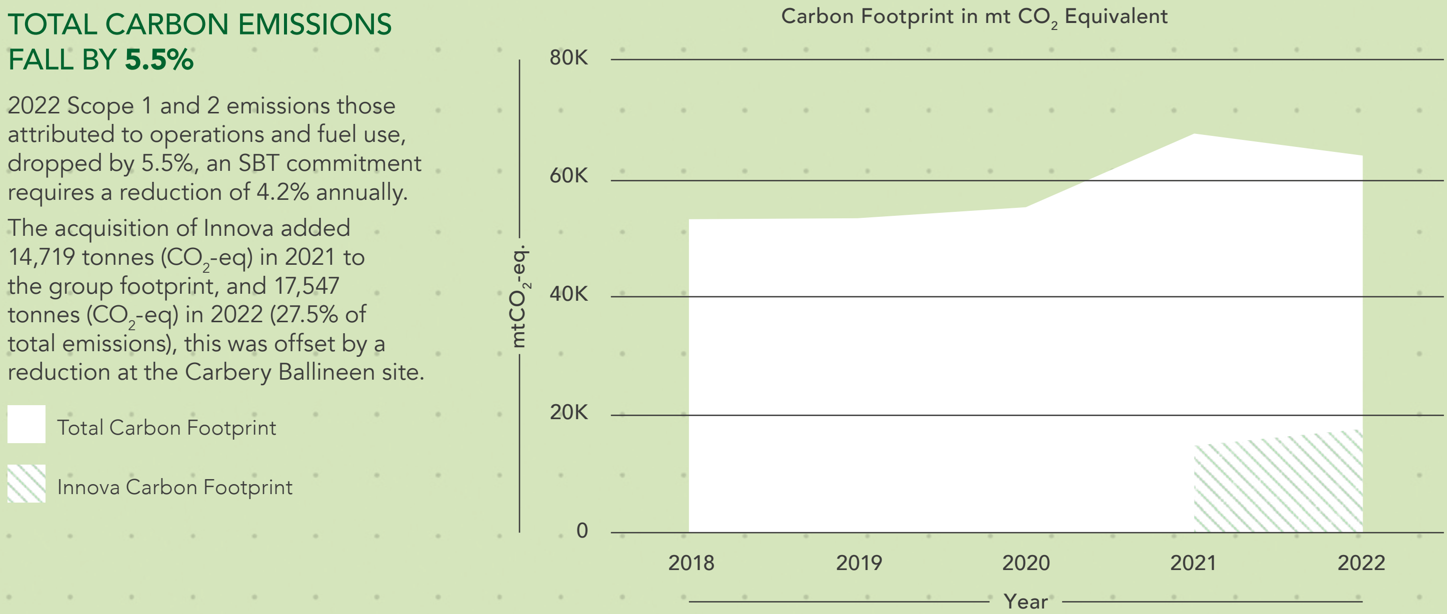
There is an urgent need to accelerate climate-action in many areas of our business and we have adopted global standards and ambitious goals. Our key environmental impacts are energy, water and waste. We closely manage our use of energy and the resultant greenhouse gas (GHG) emissions that we are responsible for; we monitor our water use and effluent discharges; and we aim to minimise the creation of waste.

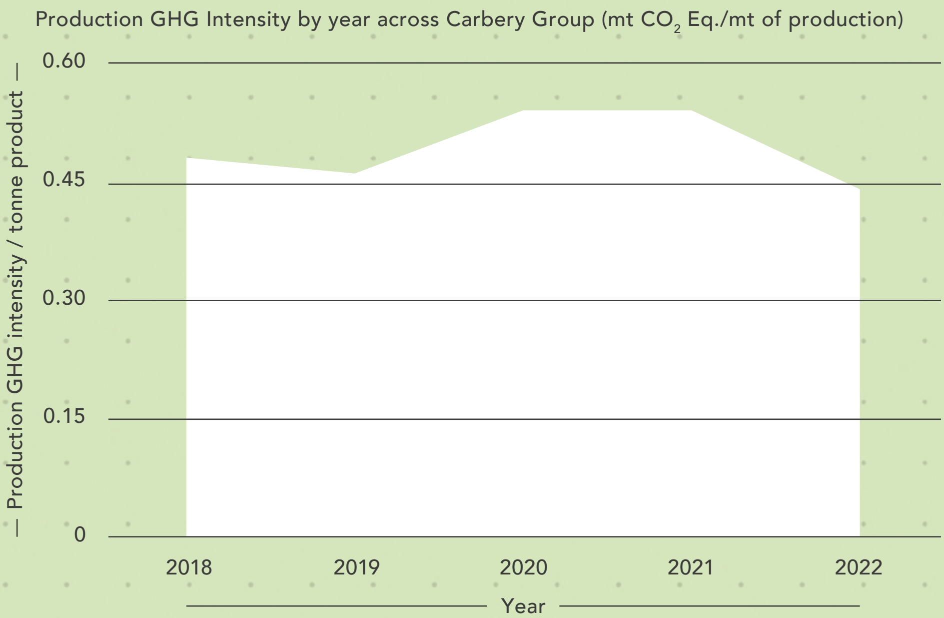
2022 CARBON

TOTAL CARBON EMISSIONS FALL BY **5.5%**

2022 Scope 1 and 2 emissions those attributed to operations and fuel use, dropped by 5.5%, an SBT commitment requires a reduction of 4.2% annually.

The acquisition of Innova added 14,719 tonnes (CO_2-eq) in 2021 to the group footprint, and 17,547 tonnes (CO_2-eq) in 2022 (27.5% of total emissions), this was offset by a reduction at the Carbery Ballineen site.





PRODUCTION GHG INTENSITY FALLS BY **17.7%**

This is largely due to the fact that production increased across the group by 14.9% in 2022 while group emissions reduced by 5.5% at the same time. Another factor was an increase in renewable electricity use across the group.

2022 WATER

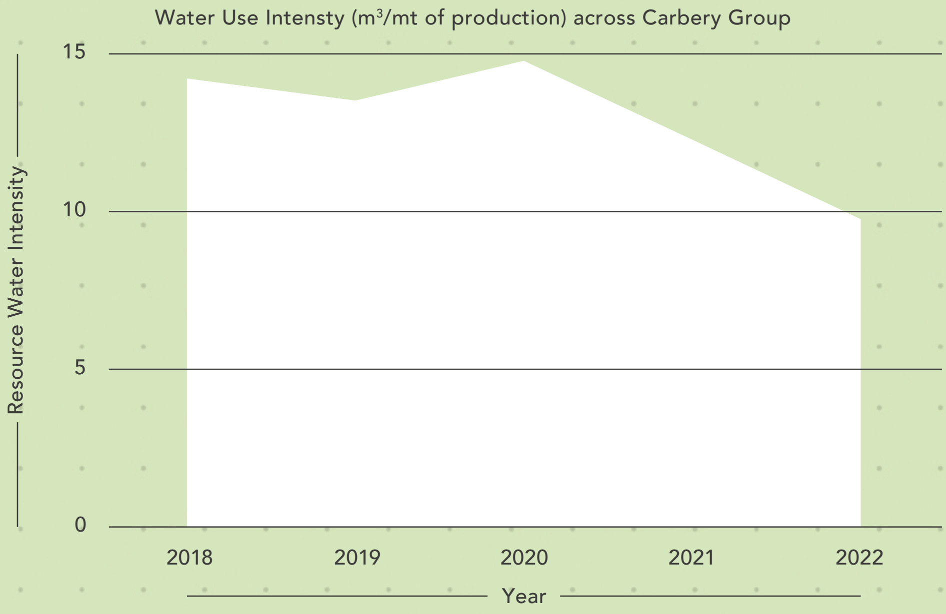
WATER USE REDUCED BY **8.4%**

Water use across the group reduced by 8.4% in 2022, from 1.538 million cubic metres in 2021 down to 1.409 million cubic metres inclusive of newly acquired Innova.

WATER INTENSITY REDUCED BY **20.3%**

Water use intensity reduced by 20.3% across the group in 2022. On the back of a 16.9% reduction in water intensity the previous year, there has been a 31.2% reduction in water use intensity across the group since 2018.

We aim to see further reductions in water usage in future years as all facilities map water usage and have plans to recover water wherever possible.

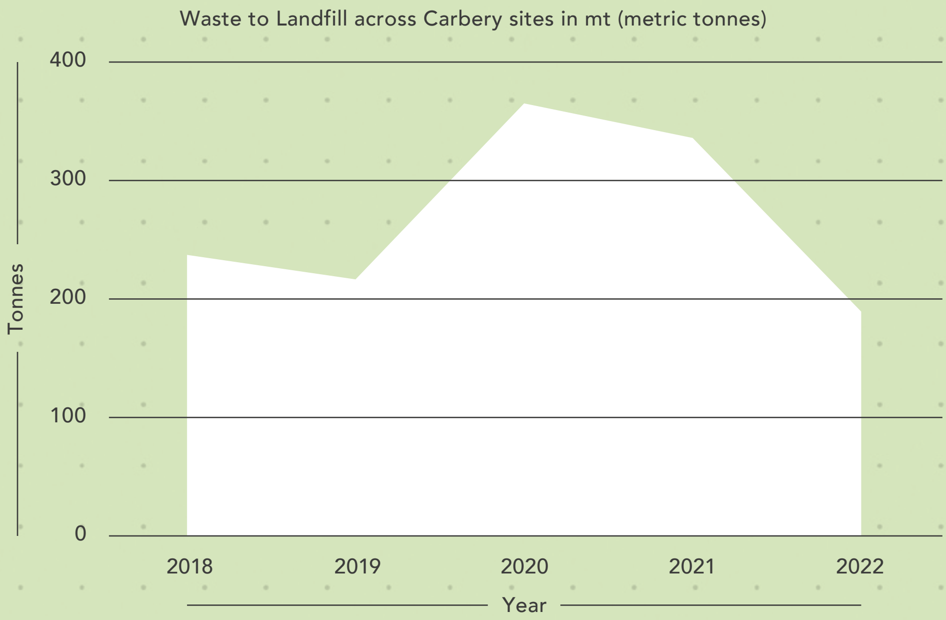


2022 WASTE

IN 2022 WE REDUCED WASTE TO LANDFILL BY 150 METRIC TONNES, A DROP OF **44.7%** FROM 2021

The 2021 trend of reducing waste to landfill continued in 2022 where a sizeable reduction was noted. In total there was a 150 metric tonne reduction in waste going to landfill since 2021.

The increase in 2019-2020 was due to our cheese diversification project and waste arising as a result.



Carbery has a zero-waste philosophy and to ensure this ambition manifests itself we need to stop the waste arising in the first place. With the help of green teams across the manufacturing sites there is a big drive to instil this zero-waste philosophy group wide. In Ballineen a waste management project commenced towards the end of 2022 where waste segregation guides were published, and a new waste monitoring procedure was developed.

Throughout the US sites a major focus on waste was initiated in 2022 to get staff to embed thinking that waste is a resource. In 2023 there are plans to host a series of trainings on recycling. The sessions will be focused on reduction of waste/plastic use, waste management practices and introduce concepts of circularity culminating in an event for Earth Day.

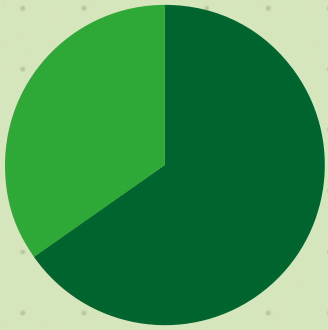
SPOTLIGHT ON BALLINEEN

Our facility in Ballineen accounts for the major allocation of group environmental resources, though this balance is changing with the addition of Innova to the Group portfolio. We also have our circular economy process at this site, which is focused on extracting every drop of value from the milk we take in.

The Innova acquisition has also led to a significant shift in the group's Scope 1 and 2 emissions as illustrated in figure 2 above. Historically the Synergy aspect of the business was responsible for circa 8% of the companies Scope 1 and 2 emissions but that is now up to 35% as highlighted, with the Carbery Ireland business going from 92% to 65% of the groups Scope 1 and 2 emissions.

Here's a closer look at our Ballineen environmental metrics.

Group Scope 1 & 2 emissions breakdown



2022 total mt of CO_2-eq

- Carbery 41,535
- Synergy 22,228

-13.5% GHG EMISSIONS

The largest fall in Scope 1 and 2 emissions happened at the Carbery Ireland site where emissions fell from 47,902 tonnes (CO_2-eq) in 2021 to 41,421 tonnes (CO_2-eq) in 2022. That's a 13.5% reduction and largely attributable to the fact that the CHP plant was not operational for a period in 2022. The CHP plant utilises natural gas for its operation and with the CHP not in use the plant used green electricity instead.

-10.3% WATER USE

The Ballineen plant used 10.3% less water in 2022 v 2021, or a total volume of 130,000 cubic metres. This reduction is down to extensive investment in water recovery technologies such as reverse osmosis and recycling of water from the whey permeate and various condensate streams. It's also recognition for the efforts of the services and production teams who have placed huge emphasis on water recovery over the past decade.

108 TONNE REDUCTION IN WASTE TO LANDFILL

The global 44.75% reduction in waste to landfill was largely attributable to a 108-tonne reduction across Ballineen. This was due to sending waste arisings for waste to energy as opposed to landfill.

ENVIRONMENTAL SUSTAINABILITY INITIATIVES

CREATING A GREEN CULTURE

While we have measures in place to reduce our climate footprint across the Group, there is also a program of employee engagement and action that sits alongside this. The Sustainability team with assistance from Green Teams across global sites promote a program of activities, education and engagement that enhance sustainability as a central part of our culture.

Above: Ireland Green Team visit the ERI in UCC.

US

In the US, various sites celebrated Earth Day by improving their surrounding areas. Each location organised litter picking events that effectively removed any winter debris that had accumulated on Synergy grounds and nearby roadways. Additionally, seed packets containing pollinator-friendly wildflowers and giant sunflowers were distributed to employees for them to plant in their home gardens.

The Green Team participated in the Wauconda Parks District's Earth Day Recycling Collection & Giveaway event. Synergy donated 200 red oak tree saplings and collaborated with a master gardener to provide planting instructions to attendees from the surrounding area. Green Team volunteers were also present to assist other local businesses, such as POSRG, our new e-waste partner, in collecting and sorting recyclables gathered throughout the day.

UK

New waste stations were introduced across the site in High Wycombe, and employees carried out litter picks in the local area. The Green team ran an energy saving awareness campaign and celebrated Earth Day with some tips on investing in a greener planet.

BALLINEEN

Our Green Team in Ballineen continued to promote and implement sustainable initiatives. In April, as part of the Sustainable Futures Project, we visited the Environmental Research Institute in UCC where we discussed sustainable diets, the energy transition and had a brainstorming workshop on green initiatives. We linked with the global Green Teams to celebrate Earth Day where UCC professor Paul Deane presented on global energy issues.

To mark World Bee Day on 20th May, a Beekeeping Workshop was held for employees in Ballineen, members of the Cork Beekeeping Association attended. In August we visited local dairy producer Glenilen Farm and we carried out bulb planting onsite in the Autumn.

RESPONSIBLE PLASTIC MANAGEMENT

During 2022 as part of the Responsible Plastic Management Program we completed an audit of plastic onsite. The outcomes include trialling recycled content plastic, reduced micron plastic and aiming to reduce single use plastics where possible.

WINTER ENERGY EFFICIENCY DRIVE

Over winter 2022, the Eenergy team drove an awareness and energy reduction programme to reduce the use of energy in Ballineen over the winter months. An awareness campaign was developed with posters, emails and notice boards , with weekly updates focusing on different areas and highlighting successes. From reporting steam leaks, to switching off lights, actions large and small were covered, with a good increase in awareness and accountability for energy reduction delivered across the site.

AWARDS

Green Food & Beverage
Green Awards 2022

Sustainable Trade Exporter of the Year Award
Export Industry Awards 2022

DAIRY SUPPLY CHAIN

We are extremely proud to showcase the many ways our farmers continue to show their commitment to farming in a sustainable and low impact way. Nutrient management, water quality, breeding, renewable energy and reseeding are all elements that our farmers are focusing on constantly, to ensure they are improving the land and their communities for future generations.

2022 was a year of uncertainty, with the war in Ukraine and post-Covid supply issues impacting farmer inputs in terms of both supply and cost. There was a heightened pressure on agriculture to address the environmental and climate impacts of the sector.

Our intensive focus on embedding sustainable practices on the farms of our suppliers was elevated with the launch of the FutureProof sustainability bonus, a commitment to support farmers financially with this transition. A range of other activities across the year also supported through knowledge, up-skilling, support and resilience.

Carbery suppliers are passionate about biodiversity, about new technologies and new approaches. We are proud of what we have achieved together so far and excited about what lies ahead in our collaboration to ensure a sustainable future for farming.

In 2022 the emissions ceiling for agriculture was set at a level requiring a 25% reduction by 2030. The challenge of meeting these targets will not be easy for the sector, and in 2022, our goal at Carbery was to support this transition for farmers.

HOLISTIC APPROACH TO FARMER SUPPORT

A leading milk price is only part of how we support our farmer suppliers. Through incentivising sustainable practices, supporting mental and physical health, educating and up-skilling, rewarding quality and good practice, we want to make sure we are playing our part in ensuring the future of farming.

PROMOTING MILK QUALITY

- Milk Quality Awards
- Thermodurics workshops
- Milk Quality winner's farm walk
- SCC bonus

SUSTAINABLE FARMING PRACTICES

- Carbery Greener Dairy Farms
- Monitor Farm Programme
- Signpost Farms with Teagasc
- UCC Diploma in Environmental Management

FARMER WELFARE

- Farmer welfare conference
- Samaritans initiative
- Mental health first aid training for Co-ops

REDUCING CLIMATE IMPACT

- FutureProof sustainability bonus
- Farm Zero C project

1208 FARM FAMILIES

SUPPORTING FINANCIAL WELLBEING

- Leading milk price paid
- Stability Fund supported
- End of year bonus paid
- Fixed Milk scheme

PROTECTING WATER QUALITY

- 400 ASSAP assessments
- Additional ASSAP advisor appointed
- Water quality streamside workshops held

ENHANCING BIODIVERSITY

- Carbery Trees project
- A guide to biodiverse hedgerows published
- Biodiversity workshops
- Biodiversity mapped on replicator farms

ANIMAL HEALTH & WELFARE

- Supporting AHI and Cell Check programmes

DAIRY SUPPLY CHAIN

REDUCING CLIMATE IMPACT

In 2022 we launched the Carbery FutureProof sustainability programme. The aim of the programme is to build on and support the great work already underway on sustainability on the farms of our farmer suppliers, with a €6m annual bonus fund for those who meet four sustainability criteria.

To prepare for the roll out of the full scheme in 2023, every supplier who opted into the scheme received a 0.5 cent per litre (cpl) bonus on all milk supplied at the end of 2022. In exchange, farmers agreed to undergo an Agricultural Sustainability Support and Advisory Programme (ASSAP) assessment for water quality. Phase 1 of FutureProof was a success, with 96% of suppliers signing up to the programme. In 2023, Carbery suppliers will receive 1cpl bonus in exchange for the implementation of milk recording, meeting certain Economic Breeding Index (EBI) thresholds, commitment to an ASSAP (water quality) assessment and using protected urea.

Carbery Greener Dairy Farms (CGDF)

The CGDF programme continued to work with farmers on the objectives of the programme which are to enhance efficiencies and improve environmental sustainability on all participating farms. Including the new Monitor Farms, there are now 70 farms participating in the programme.

Beetle-mania

In October, a farm walk organised by Lisavaird Co-op regarding the farm of James Hurley, drew a large crowd as farmer, Nuffield scholar and self-proclaimed #dungman Bruce Thompson led a discussion regarding biodiversity on farms. The importance of dung beetles and their role in reducing the use of stomach wormers in cows. There was great interaction around the topic of parasite management and sustainable farm practices.

Carbery/UCC Diploma in Environmental Science and Social Policy

As part of the CGDF programme, Carbery has collaborated with UCC to develop a diploma in environmental science and social policy for dairy farmers. Through the Carbery Greener Dairy Farms project, farmers were able to complete a diploma where aspects of an existing diploma were recognised through the Retrospective Prior Learning (RPL) mechanism and means that the farmers on completion of the remaining 30 credits, qualified for the Diploma in Environmental Science.

SUSTAINABLE FARMING PRACTICES

The Carbery/ Teagasc Joint Programme consists of 10 Monitor Farms to lead and demonstrate the development of carbon efficient and sustainable dairy farming in West Cork. This programme, run in conjunction with the West Cork co-ops (Bandon, Barryroe, Drinagh and Lisavaird) is critical in leading the development of dairy farming in the region. A number of the Carbery/Teagasc Monitor Farmers are also participants in the national Signpost programme.

The Signpost programme is a collaboration between industry and Teagasc with the goal of reducing gaseous emissions from Irish agriculture, while creating more profitable and sustainable farming enterprises.

Five Signpost events were held on the farms of the O'Donoghue Family in Ballinadee, Peadar O'Driscoll in Church Cross, Gurteen Share Farm of Padraig Cunnae, Bandon, the Kingston Family farm in Drimoleague and on the Walsh family farm in Barryroe.

FARMER WELFARE

More than 300 farmers logged onto our Carbery Farmer Webinar on the theme of 'Planning, Health & Wellness for 2022' in January 2022 which looked at succession, mental health and wellbeing and goal setting. The speakers on the night were Tom Curran, Teagasc, John Connell, farmer and author of 'The Cow book', Irish Olympian Phil Healy and Carbery Group CEO Jason Hawkins.

Right: Bruce Thompson on the importance of dung beetles and their role in reducing the use of stomach wormers in cows.

PROTECTING OUR WATERWAYS

ASSAP is the Dairy Sustainability Ireland run programme, now in its fourth year, offering free advisory services to farmers to educate and advise them on ways in which they can optimise their farming practices to improve water quality.

The importance of ASSAP is underpinned by its incorporation as a mandatory measure in the recently launched Carbery FutureProof Sustainability Bonus.

Over 400 farms have been visited as part of the programme to date in the Carbery region, including all the farms in the Priority Areas for Action (PAAs). These PAAs were targeted early in the ASSAP programme. The 2022 Summary Report on Water Quality in Ireland, released in October 2022 by the EPA, stated that, 'current data show that the proportion of improvements within the PAAs exceeded improvements outside these areas by 17% This indicates that when targeted action is taken improvements in water quality can be achieved'. Carbery recruited a second ASSAP advisor, Liam Bohane, in 2022 to increase the number of assessments.

ANIMAL HEALTH & WELFARE

Carbery is a member of Animal Health Ireland and throughout 2022 we supported our farmer suppliers to prioritise animal health and welfare, especially the effective control of potential diseases on farm. We supported a number of programmes through our involvement in the implementation groups of the national Johne's Control Programme which aims to support farmers in the eradication of Johnes disease on farm and also the coordination of AHI's national CellCheck programme which seeks to ensure top quality milk while also ensuring good animal health and less requirements for antibiotics. Carbery along with AHI and Teagasc held two dry cow preparation workshops in October 2022.

TASTE SUPPLY CHAIN

Vanilla is a key ingredient for Synergy Flavours, and we have taken steps to procure vanilla beans through sustainable sources that prioritise the well-being and livelihood of vanilla farmers and their families. We work only with suppliers that use traditional curing methods, which promote environmental and economic benefits in the community. We source our vanilla from Madagascar, one of the world's poorest and most under-developed countries.

Above: On the farm walk of 2021 winners Ronald Betty and Brian Shorten. Pictured are Ronald, Mayor of Cork Danny Colllins and Don Crowley, Teagasc.

Above: Launch of the Monitor Farm programme on the farm of John Cullinane.

FARMING FOR A SUSTAINABLE FUTURE

Farm Zero C is a Science Foundation Ireland (SFI) funded project with the aim to create an economically viable, climate neutral dairy farm.

The project presents a holistic approach to developing new solutions for reducing greenhouse gas emissions while improving biodiversity, air quality and water quality.

A PARTNERSHIP APPROACH

The project, led by Carbery & Biorbic, is a collaborative initiative between industry, government and academics. Farm Zero C received funding from Science Foundation Ireland as winners of the Zero Emissions challenge in 2021.

CARBERY

biorbic

Shinagh Estates Ltd
Shinagh, Bandon, Co. Cork

Teagasc
Agriculture and Food Development Authority

UCD DUBLIN

MTU
Ollscoil Teicneolaíochta na Mumhan
Munster Technological University

Trinity College Dublin
The University of Dublin

GRASSA!

SHOWCASING SUSTAINABLE DAIRY FARMING

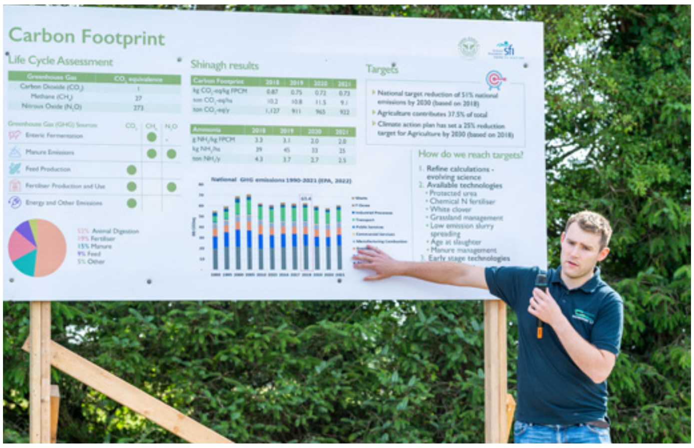
The project puts a strong emphasis on engagement with all relevant stakeholders. Farmers are a key stakeholder in the project and will be end users of the technology developed so regular engagement with farmers is vital, providing us with valuable feedback and input. In 2022, we also welcomed visits by politicians, policy makers, NGOs, ag-tech companies, universities, primary and secondary schools and the local community.

LAUNCH OF VISITOR CENTRE

The opening of the Farm Zero C visitor centre in Shinagh in June 2022 has been a very welcome addition to the project. The office is used on a daily basis by the project team and also hosts visitors to the farm. The modern building is a fantastic space to demonstrate to visitors the work being done and share the achievements and challenges being addressed by the team and has also given us the opportunity to have open discussions and gain valuable feedback.

OPEN DAY AT FARM ZERO C

The Open Day 2022 was held on the 2nd of September in Shinagh where over 600 people attended. Attendees to the open day were invited to tour the farm, see the work underway on the project to date and learn about the strategies being deployed on the farm to lower greenhouse gas (GHG) emissions and improve biodiversity, water & air quality.

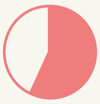


Right: The National Bioeconomy Forum meeting held in Shinagh in June 2022

RESEARCH UPDATE

REDUCING GREENHOUSE GASES

METHANE (CH_4)



57% of GHG Emissions

Methane Reducing Feed Additive Trials

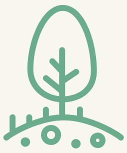
Researchers based in Moore Park are trialling feed additives to reduce methane emissions from dairy cows. A key challenge is finding an additive that works in a grass-based system. Early results from trials show a reduction of methane but efficacy has not been established. Additionally, in the trials the control group of cows are producing lower levels of methane than previously thought.

On farm, Bovaer (3NOP), a methane reducing feed additive has been fed to cows in Shinagh over the winter period. The additive was incorporated into a dry cow mineral and fed over the dry period until they calve down. The long term plan is to find a feed additive that can be fed all year round to reduce methane emissions via concentrate, water or slow release bolus.

Slurry Additive

Also on farm, we are working with Glasport Bio to develop their methane reducing slurry additive, in scaled tests this has reduced methane in large slatted tanks by 75-80%.

NITROUS OXIDE (N_2O)



39% of GHG Emissions

Replacement of Calcium Ammonium Nitrate (CAN)

Where possible, the farm has replaced CAN with 100% protected urea.

Multi-species Swards (MSS)

The farm is investigating the use of multi-species swards to reduce the need for chemical fertiliser. 11% of the grazing platform on Farm Zero C is sown with MSS across 4 paddocks. The red clover silage ground has grown 14.5 T dm/ha with no chemical fertiliser to date. No chemical fertiliser was spread on one of the MSS paddocks as a trial and grew 14.5 T DM/ha, which was above the average DM production of the farm. Reducing chemical fertiliser is a win-win for the environment and the farm as there is a reduction in GHGs and costs. The project continues to look at new strategies that can be used to further reduce chemical fertiliser usage e.g. bio stimulants.

CARBON DIOXIDE (CO_2)

4% of GHG Emissions

Installing energy efficient equipment and renewable technology.

Key steps have been taken to reduce the farm's energy consumption and reliance on fossil fuels by installing energy efficient equipment and renewable technology. Solar PV has been installed on the roof of the milking parlour and a smaller ground mounted system has been installed near the pumphouse. Both systems have been coupled with battery storage which captures excess energy during the peak sunlight hours. Once batteries are fully charged, excess energy is supplied back into the grid through the ESB mini generation scheme. With the announcement of new grants, these systems can have a payback on investment within 3-4 years depending on energy prices.

SOIL AND SOIL CARBON

Soil carbon sequestration

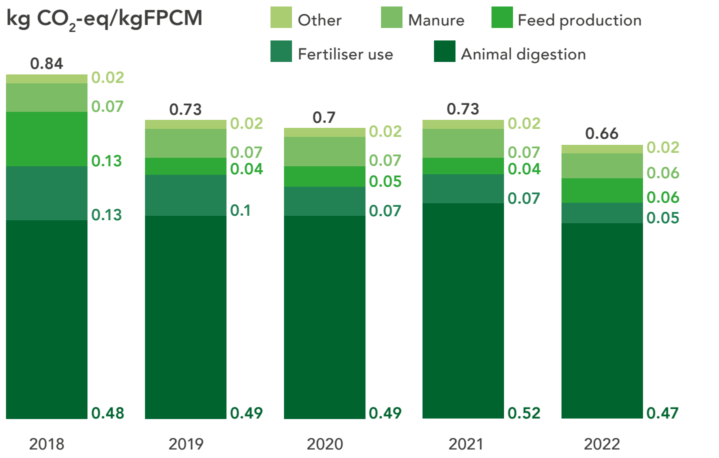
Sequestration is a key strategy for farms to displace their carbon footprint. It is the process of capturing carbon dioxide (CO_2) from the atmosphere and storing it in plant material or soil. Ecosystems that can sequester more CO_2 than they release are termed carbon sinks, while those that emit more than they sequester are termed carbon sources. Forestry is good for sequestering carbon, and agricultural soils can also be carbon sinks (but they can also be sources). Our objective on the project is to monitor, verify and report the changes in carbon stocks over a period of time and use this data to displace emissions produced on the farm. A conservative figure of 500 kg carbon sequestered per ha would result in a 15-20% displacement in emissions in Shinagh. Recent findings from Teagasc estimate that some mineral soils may be sequestrating 2-3 times this amount. Sequestration is very difficult to measure as the amount of carbon sequestered (or lost in some cases) each year is tiny relative to the overall stock. Extensive soil carbon sampling has been carried out on the farm along with the installation of an Eddy Covariance tower to monitor changes in carbon stocks.

ENHANCING BIODIVERSITY, AIR AND WATER QUALITY

BIODIVERSITY

Enhancing biodiversity on the farm is a key pillar of the project. There is a plan to have 10% of the total farm area under high quality habitat. Some of the new changes on the farm include planting a new native hedgerow, moving the fence line out from the ditch on south facing paddocks and the creation semi-natural grassland and wetland habitats. We have created interactive biodiversity maps for Shinagh and the 10 Monitor Farms and plan to scale these to more farms before the project is complete.

CARBON FOOTPRINT OF SHINAGH



PROMOTING MILK QUALITY

The 18th Milk Quality and Sustainability awards were held on 9th November 2022 and the Kingston Family, Drinagh Co-op Suppliers came out on top of the 12 deserved finalists. The family, consisting of Ian, his wife Marie, and their children Dylan and Emma, as well as Ian's parents Dick and Kathleen, milk a herd of 181 cows on 200 acres and average 430kg milk solids per cow.

Ian would describe himself as being very interested in the facts and figures about his farm, as well as trialling new approaches, "I am always tracking and reading up on what's happening and keeping up with the latest thinking to do the job right. I tend to be early in trialling new approaches because I trust the advice that I get and that we are never asked to try what won't work. I also know my ground very well and I know what will work for me."

One of the first Monitor Farmers (a Carbery/Teagasc joint programme supporting farmers) in 1997. Ian is still part of that group and has also participated in many trials with Moorepark. He is also part of the Green Acres Discussion group.

2021 WINNERS FARM WALK RETURNS

The Carbery Milk Quality Award winners walk returned to an in person event for the first time since 2019 and was held on Friday 22nd July 2022.

More than 450 attended on the day to tour the Shorten family farm and to hear from Ronald, Betty & Brian along with researchers and advisors from Teagasc.

THE FINALISTS

Bandon co-op

Micheál & Martina Dullea
Keelnameela North Bandon
Farming: 131 acres **Herd Size:** 90 cows
Milk: 473kg of milk solids per cow

Anthony Dempsey
Ballymountain,Innishannon
Farming: 40 acres **Herd Size:** 75 cows
Milk: 472kg of milk solids per cow

Éibhlín and Michael Kiely
Ballyvrin, Kinsale
Farming: 65 acres **Herd Size:** 50 cows
Milk: 438kg of milk solids per cow

Barryroe CO-OPERATIVE LIMITED

Michael Coleman
Carrigeen, Butlerstown
Farming:185 acres **Herd Size:**140 cows
Milk: 578kg of milk solids per cow

Laurence, Bridget & Denis Keohane
Ballintemple, Clonakilty
Farming: 75 acres **Herd Size:** 150 cows
Milk: 625kg of milk solids per cow

Patrick O'Brien
Brownstown, Ballinspittle
Farming: 40 acres **Herd Size:** 80 cows
Milk: 449kg of milk solids per cow

Drinagh

Ian Kingston
Sillertane, Dunmanway
Farming: 200 acres **Herd Size:** 181 cows
Milk: 430kg of milk solids per cow

Sam Kingston
Bawnahow, Skibbereen
Farming: 54 acres **Herd Size:** 64 cows
Milk: 477kg of milk solids per cow

Timothy and Shane McCarthy
Dromusta West, Drimoleague
Farming: 166 acres **Herd Size:** 156 cows
Milk: 537kg of milk solids per cow

LISAVAIRD CO OP

Kevin Collins
Caruvouler, Ballineen
Farming: 37 acres **Herd Size:** 53 cows
Milk: 481kg of milk solids per cow

Stanley Helen
Crohane, Ballinascarthy
Farming: 100 acres **Herd Size:** 102 cows
Milk: 494kg of milk solids per cow

Richard and Michael White
Tullineaskey, Clonakilty
Farming: 180 acres **Herd Size:** 103 cows
Milk: 450kg of milk solids per cow

People

We are a diverse and growing workforce of almost 1,000 people across 8 countries. As we grow, our aim for our people is to create an environment where they have opportunities to develop, to grow and to do their best work easily. We know that our people are our most significant advantage, and in a competitive global work landscape, we have worked hard this year to provide a supportive, inclusive, flexible and connected environment that allows our employees to thrive.

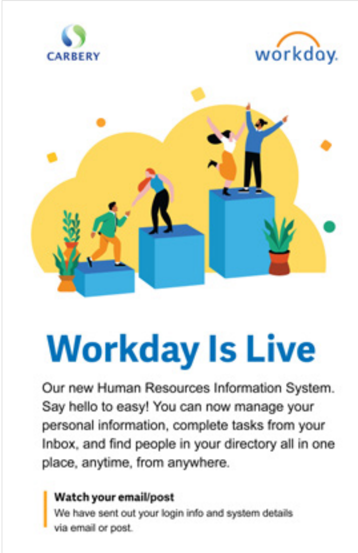
THE YEAR IN REVIEW

If there was a theme that brought together a rich and diverse programme of activity focused on our employees in 2022, it would be the power of reconnecting. After the disruption of almost two years of Covid, our focus was on providing opportunities, resources and support for groups to come back together and collaborate. We did this with events, with learning and development opportunities, with technology and system improvements and with communication experiments.

CONNECTING THROUGH TECHNOLOGY

2022 saw the introduction of a new global human resources information system (HRIS) for the company as a whole. In a year-long project, HR systems and processes around the world were standardised and digitised, in many cases for the first time. When the project is fully completed by mid-2023, we will have a system which is fit for purpose to support the needs of our modern business.

Our new solution manages and processes employee information and HR-related policies and procedures. Employees will have better access to their data, to view and track real-time updates and a self-service model in terms of key HR processes. As a company, it allows us to have better real-time insights to base our talent management and investment decisions on. The HRIS will allow us to standardise HR tasks and processes while facilitating accurate record keeping and reporting and frees up HR teams to do more strategic work.



Left: Workday, an online resource for staff launched in 2022 by HR

CONNECTING IN PERSON

Throughout 2022 we provided several opportunities for employees to connect with each other and with managers and executives. A series of meetings was held in Wauconda, High Wycombe and Ballineen sites where members of the Global Leadership Team (GLT) met with groups of employees at all levels, within the various locations in our sites, in a stand-up format. The intention was to facilitate informal conversation and information sharing, to allow the GLT and employees to get to know each other better and have direct conversations about the issues that matter to employees. These stand-ups were part of a range of initiatives deployed to improve connection between employees and to create a culture shift towards a new target culture.

The leadership team in High Wycombe cooked and served Christmas breakfast to employees there and enjoyed a summer festival. US employees came together in department holiday parties throughout the year, including the annual employee appreciation day ice cream party, the summer picnic and the annual leadership team cookout.

In Ireland, employees came together at several events run by the Sports and Social Club, including night kayaking, a trip to the races, and excellent family fun day 'Picnic on the Pitch' and the return of the Christmas Party. Employees also came together for ice cream and a gift to celebrate the achievement of winning Cork Company of the Year 2022.

Top two: The GLT held stand-up meetings with groups of employees globally

Left: Carbery staff gathered on a glorious summers day in Ballineen for fun, food and sunshine

Bottom: Brazil team's holiday party

> ***Reconnecting with colleagues has been so important, and I appreciate the company's support and flexibility in returning to the office.***
>
> Carbery employee

CONNECTING THROUGH RETURN TO OFFICE

With the majority of employees returning to the office, at least part-time, there was opportunity for connection but also a period of re-adjustment. The return was guided at a strategic level by our 'Moving Forward' approach, a philosophy which focuses on personal accountability and autonomy. We moved away from mandating specific in office days to focusing on collaborating and learning and adjusting as we went. Many of our activities this year were focused on supporting people in that return to work. In the US, some new resources, including a Flex Guidebook, a new employee year book and a People Portal, providing information on company policies, benefits, programs and training were some of the resources created to ease this transition. In Ireland, a newly established monthly session of Tea & Chats, inspired by the stand-up meetings around the 2022 Open Week, brings employees from around the company together simply to connect.

CONNECTING THROUGH VALUING OUR PEOPLE.

Recognition and reward is a key priority across the global HR teams, and our programmes continued worldwide in this area. In Ireland, the quarterly WOW (Ways of Working) Awards continued, with hundreds of nominations received this year. In the UK, Italy and Thailand, the Synergy Stars awards continued, with monthly Stars awarded. And in the US their peer driven programme awarded 139 awards for: leadership, above & beyond contribution and special project contribution.

In Italy, the team celebrated Giorgio Ferluga, the first Italian employee reaching 30 years of service. They also recognised 20 years of service from other team members.

In UK we launched our Good Catch Webform to make it easier to report on potential hazards and safety improvements. Two colleagues received awards this year recognising the most impactful good catches for safety.

The lunch for retirees, a valued tradition in Ireland, was back for the first time since Covid this year, and it was great to reconnect with old friends and colleagues.

The Ireland team were also proud to support higher eduction and further learning, with several colleagues achieving higher education qualifications supported by the company.

We were delighted to partner with Munster Technological University (MTU) and Ibec in launching the Carbery Laboratory Apprenticeship programme supporting our commitment to be an employer of choice in our region.

This is an opportunity for candidates seeking to change their career, who have an interest in a career in science, who wish to retrain or upskill in the food sector, or who are mature students.

The first scholarship student from our collaboration with the UCC Masters in Co-operative studies completed his studies and is now working fulltime for Carbery.

From top left, down: Lunch for Ballineen retirees

Successful launch of Good Catch health and safety campaign in the UK

Celebratory lunch in recognition of long-term staff in Italy

Carbery, Ballineen staff completing higher education courses, supported by the company.

CONNECTING THROUGH WELLBEING

Protecting and enhancing employee wellbeing was a major focus area this year, especially with a more intense work schedule as business returned to normal post-Covid.

In High Wycombe a Garden Club was launched with the idea to make our site more green and pleasant. The team added new flower pots, cleaned up flower beds and initiated herb growing on site.

The Mental Health First Aid team continued to provide support and guidance, promoting awareness, and sharing resources on World Mental Health Day (10th October) and hosting a coffee morning in aid of Buckinghamshire Mind. It was fantastic to see and chat to so many colleagues. This was supported with food donations by some of our customers

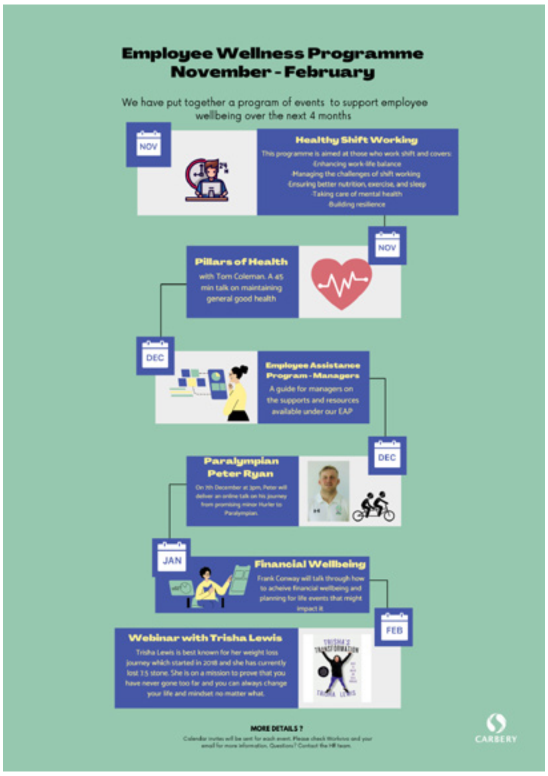
In Europe we have been continuing the litter picking sessions and the Book Club initiative has expanded to include more sites (Italy, UK and Ireland) and members have had a number of good discussions around some thought provoking reads members may not have picked up before.

In Ireland a wellness programme for 2022 was developed and rolled out, with speakers and training sessions on financial wellbeing, diet and exercise, managing migraines, healthy shift working and tips for managing stress. The VHI Health Hub was onsite for a week in November offering free health checks via a self-service health screening station.

Employees in Ireland, US and UK were offered free flu vaccines. The US launched a new Employee Assistance Programme available to all employees and their families. The programme includes counselling sessions, WorkLife Tools, medical advocacy and Financial and Legal Resource and Referral services. The US also introduced an extended wellness weekend in March with two additional days' leave, and employees who had to work got offered personal days — people were encouraged to take the weekend to recharge relax and refuel.

HIRING

In a challenging global environment for talent attraction and retention, our HR team were focused on creating an excellent employee experience for our current employees, and reflecting the best of our company culture, benefits and advantages for prospective candidates. A variety of new recruitment approaches were trialled including open days, new recruiting practices and more focus on social media as a hiring tool. Work was also carried out on upgrading our induction experience and making the onboarding process for new employees easier.



Top: A series of online webinars was organised for Carbery staff to help with general wellbeing

Above: Synergy Brazil employees received Easter care packages

DEVELOPING LEADERS WHO CAN SUSTAIN OUR SUCCESS INTO THE FUTURE

Throughout 2022, with our current strategy coming to an end, an ambitious programme of work underway on culture transformation, and the organisation at an important juncture in terms of future direction, we took the decision to invest significant time to understand how to leverage strengths in our current culture that would be needed to evolve in the future. We channelled resources into building up the skills and capabilities of our leaders across the organisation. An intensive programme of work from May to September culminated in a global forum, bringing together leaders from around the global organisation in Ireland to focus on building capability and setting the future direction of the organisation.

We have a team of over 50 leaders involved in this work. Building on what was covered in the global forum, these leaders are now focused on getting awareness of their own unique style and how that style can be leveraged on this journey. Work is continuing in regional teams with conversations, training and resources around critical conversations, coaching, giving feedback and managing through change. The intent with this programme is to instill the skills necessary in our leaders to successfully lead and inspire their teams to implement our new strategy, enabled by a shift in culture.

Above and left:
A global cohort of employees came togther to plan for the future of Carbery, strategising over 5 intensive days in Killarney last September

SPOTLIGHT ON: THE STRONGER TOGETHER SERIES

The US team created the Stronger Together Series for managers in the US. They curated sessions for managers to work together in small teams to support them. Learning from each other and talking through real life scenarios strengthened our internal leader community.

"Talent development and employee engagement continue to be at the forefront of driving retention. As leaders, our impact and leadership is more critical now then ever before. We have an exciting opportunity to make a difference, now! " — HR manager, US

The outcomes of the programme were intended to strengthen the internal community of leaders, share tools and resources to support leaders in their roles, maximise the impact of people leaders, and clarify expectations for people managers.

Community

In all of our global locations, we know a priority for our teams is to remain connected to and to support their local communities. As part of our purpose — Enriching lives, together — giving back to and developing our communities through financial donations, and donation of time, expertise, product and advice is a major focus.

As the world re-opened post-Covid, we also had the opportunity to gather together as employees to raise funds and awareness for local causes. Our partners in the sector were also clear that the needs of the communities they are supporting were also more acute after two years of pandemic restrictions and cutbacks.

We made an effort to be more impactful in terms of the causes we support, with large collective fundraising effort this year to support the Red Cross and UNICEF in Ukraine.

FLAGSHIP INITIATIVES

UKRAINE APPEAL

We were all very moved by the plight of the people of Ukraine as the Russian invasion began in February 2022. Everyone identified with the horror of Ukrainian people being pulled into a conflict situation that they had no control over. Our farmer suppliers were particularly affected by the images of livestock and crops abandoned and the difficulties farmers faced as food supply chains collapsed.

Carbery and the Co-ops matched donations received from employees and shareholders. Through the generosity of employees and suppliers, we raised €90,000 and the donations were divided between the Red Cross and UNICEF. In response to this desire to help from our employees and stakeholders, we came together as a global company, as the four West Cork Co-ops and on behalf of our farmer suppliers in a fundraising appeal.

SYNERGY SUPPORTING SCHOOLS IN MADAGASCAR

Vanilla is a key ingredient for Synergy Flavours, and we have taken steps to procure vanilla beans through sustainable sources that prioritise the well-being and livelihood of vanilla farmers and their families. We work only with suppliers that use traditional curing methods, which promote environmental and economic benefits in the community. We source our vanilla from Madagascar, one of the world's poorest and most under-developed countries. Synergy has now helped fund eleven primary schools in partnership with the Madagascar Development Fund. We also fund wells and other development projects.

Above: Carbery and the four co-ops raised funds to help those in need in the Ukraine

Left: Synergy US volunteer at The Hatchery in Chicago

HATCHERY PARTNERSHIP

In Chicago, we support The Hatchery, a non-profit organisation which enables local entrepreneurs to build and grow successful food and beverage businesses and provides job training and placement programmes. We co-sponsor community events, providing food, treats and craft activities for local families.

FOODCLOUD PARTNERSHIP

This Irish social enterprise aims to reduce food waste by redistributing surplus food to charities and community groups. FoodCloud has been our strategic charity partner since 2020. We donate financially, support with excess product where we can, and also support through volunteer hours. Employees from Ballineen completed 44 volunteer hours in 2022 sorting and preparing donated food products for redistribution to charities in the region.

Left: Synergy sponsor schools in Madagascar.

Above: Carbery staff volunteer their time with our charity partner, FoodCloud.

LOCAL SPONSORSHIPS

Once again our teams across the globe got involved in helping make a difference in their local communities through sponsorships, fundraising and volunteering. Here are some of the highlights.

1/ SKIBBEREEN CHARITY ADVENTURE RACE

Carbery Group is proud to have sponsored SCAR since 2016 so that 100% of the money from race entries can support charities in the West Cork area. Since its inception, SCAR has raised over €200,000 for local charity groups

2/ ACTIVE COMMUNITY AWARDS

Carbery sponsored the Active Community Awards which recognise individuals and groups in our local Cork communities that go above and beyond in their efforts to promote community sport.

3/ HATCHERY BACK TO SCHOOL BLOCK PARTY

The Wauconda team partnered with The Hatchery and community businesses to host a back to school block party for the Garfield Park community in Chicago.

4/ HABITAT FOR HUMANITY HOME BUILD

Members of Synergy Research & Development and Quality teams spent three days in a local community building a house with Habitat for Humanity

5/ LITTER PICKING

Employees in the UK and US carried out litter picks throughout their areas.

6/ FESTIVE FUNDRAISERS

Our employees supported a range of festive fundraisers including an angel tree in Hamilton, a coat drive, gift donations, holiday card writing for seniors and the Simon Christmas Jumper Day

7/ FOOD DONATIONS

Our UK team made food donations to OneCan throughout the year and donated to provide meals at Christmas.

8/ DONATING IN BRAZIL

Our Brazil team donated to Vinhedo public library and a seniors care home locally.

1

2


CARBERY
Cork
Sports Partnership
Comhpháirtíocht
Spóirt Chorcaí
SPORT IRELAND

3


WELCOME BACK to SCHOOL
Welcome
Back to School!

4

5


SYNERGY
INSPIRING TASTE

6

7


SYNERGY
INSPIRING TASTE
ONE CAN
FOOD BANK + TRUST

8

Financial Statements

REPORT OF THE COMMITTEE

For The Year Ended 31 December 2022

PRINCIPAL ACTIVITIES

Carbery Creameries Limited and Subsidiaries ("the Group") is a leader in the development, manufacture and supply of cheeses, dairy and nutritional ingredients and flavours. Innovation is central to each of our strategic business platforms where we are continuing to develop our next generation of nutritional ingredients, natural cheese and flavour solutions for a growing global customer base.

The Group operates across many global geographies with facilities comprising research and development, manufacturing and commercial capabilities in Ireland, the UK, mainland Europe, the USA, South America, China and South East Asia.

The Group continues to grow both organically and acquisitively from its European, Asian and Americas' based businesses. During 2022, Carbery continued to successfully integrate Innova, its recently acquired Chicago based savoury flavour and ingredient business to the wider Americas business. The addition of Innova to the Group in 2021 has expanded the savoury capabilities of Synergy America and complements Synergy's offerings worldwide.

REVIEW OF THE BUSINESS

Results and dividends

Group turnover increased by 31% in 2022 to €700.8m (2021: €535.7m). On a constant currency basis turnover increased by 27%. Group EBITA (operating profit before interest, exceptional costs, amortisation of goodwill and other intangibles, share of profit/losses in joint ventures and tax) increased by 5% to €32.8m (2021: €31.2m). On a constant currency basis EBITA decreased by 6%. Profit before taxation on ordinary activities (excluding exceptional and once off items) in the financial year amounted to €24.0m compared with a profit of €23.7m in the year ended 31 December 2021.

After recognising a taxation charge of €6.5m (2021: €6.3m) a profit of €17.5m has been transferred to reserves (2021: €17.4m).

Group net debt decreased to €71.8m at 31 December 2022 (2021: €79.6m). Group debt is presently funded by bank term debt and revolving credit facility borrowings with repayments of between one- and nine-year duration.

Dividends

Other than dividends of €0.7m paid during the year to "A" shareholders on shares held in wholly owned subsidiary companies, the Committee does not propose to pay a dividend. Free cash flow for the Group decreased in 2022 by €6.6m to €9.3m (2021: €15.9m) (non-GAAP).

Results for the year

Details of the results for the year are set out in the consolidated income statement on page 79 and in the related notes forming part of the financial statements.

Capital structure

The Group finances its operations principally through cash generation, working capital facilities and bank debt.

In February 2022, the Group completed a refinancing of its primary bank facilities with Allied Irish Banks, Bank of Ireland and Rabobank comprising term debt, revolving credit facilities (RCF's) and ancillary lines of credit. As part of this refinancing, we were proud to take an industry leading position in signing up to Sustainability Linked Loan principles by agreeing ambitious Sustainability Performance Targets (SPT's) through 2022 to 2026 for water consumption, waste to landfill and Scope 1, 2 and 3 related sustainability indicators.

During 2022 the Group repaid €17.83m of non-interest-bearing shareholder loans, held by its four "A" shareholder co-ops in the Group's parent company Carbery Creameries Limited ("the Parent"). These "A" shareholders during the year subsequently subscribed for €17.83m in ordinary shares in a wholly owned subsidiary of the Parent.

Share capital

Details of the share capital are shown in note 19 of the financial statements.

The share capital is divided into 'A' and 'B' ordinary shares, the respective rights of which are detailed in note 19. During the year ended 31 December 2022, 160,636 'B' ordinary shares were issued, 45,207 'B' ordinary shares were converted from processing notes and 54,952 'B' ordinary shares were repurchased by the society under the terms of "The Milk Supply Share Scheme".

Milk Supply Share Scheme

The Milk Supply Share Scheme was launched for the milk suppliers of the Group's parent society 'A' shareholders during 2012.

The purpose of the milk supply share scheme was to ensure that Carbery was well positioned to efficiently manage the growth in milk supply volumes subsequent to the removal of milk quota limits which occurred on 1 April 2015. In addition, the scheme is designed to enable milk suppliers share in the future growth of Carbery by the provision of an exit mechanism for suppliers retiring from milk supply in the future.

From 1 April 2015, milk suppliers are now obliged to have a minimum shareholding of 16 'B' shares per 1,000 litres of pre-April 2015 permanent milk quota (Existing Milk) and a minimum shareholding of 25 'B' shares per 1,000 litres of extra milk (New Milk).

Following a review of the Scheme in 2016 the Board decided to decouple the entry price for New Milk from the 'B' share price with effect from 1 January 2017. As a result, suppliers now have a choice of purchasing 25 Processing Notes or 25 'B' shares per 1,000 litres of New Milk. Alternatively, suppliers may purchase any combination of 'B' shares and Processing Notes provided that the combined number amounts to 25 per 1,000 litres of New Milk. Each year there is an annual supply trading window for suppliers to purchase shares in respect of New Milk supplied in the preceding calendar year and a general trading window where suppliers may, if eligible, sell 'B' shares in Carbery.

In 2021 the Board of Carbery introduced the Share Redemption Exit Plan (SREP) as part of the Milk Supply Share Scheme. The purpose of the SREP is to enhance the manner in which long term milk suppliers can share in the equity value being created by Carbery. Under the SREP, retiring milk suppliers whose milk has been supplied to Carbery for not less than 20 years will receive an enhanced value (equivalent to one bonus B share for each two B shares held) at retirement for each B share held under the Milk Supply Share Scheme should they apply to have their shares redeemed (and subject to their application being approved by the Board).

OTHER COMMITTEES

The Board has established committees to help it discharge its responsibilities in compliance with appropriate corporate governance standards. Two such committees established by the Board are the Audit Committee and the Remuneration Committee.

These committees have specified terms of reference outlining their respective roles and the delegated authority of the Board.

Audit Committee

The Audit Committee is chaired by Mr. Vincent O'Donovan and its other members include, Mr. Seamus Daly, Mr. Peter Fleming and Mr. Pat Moriarty. All members of the Committee are determined by the Board to be independent non-executive directors. The Audit Committee met six times during the 2022 financial year. Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements, the independence of the external auditor, internal audit and risk management functions. The Committee is also responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. As appropriate, the Audit Committee is supported by expert independent professional advice on industry best practice.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Cormac O'Keeffe and its other members include Mr. Vincent O Donovan, Mr. Raymond Collins, Mr. Peter Fleming and Mr. Donal McCarthy all of whom are determined by the Board to be independent non-executive directors. In delivering its responsibilities regarding remuneration policy for the Carbery Group, the Remuneration Committee applies robust governance standards to its decisions.

As appropriate, it is supported by expert independent professional advice on industry best practice, including benchmarking and other remuneration matters within its remit. The principal responsibilities of the Remuneration Committee are to establish and maintain a remuneration policy for the Group and to approve the remuneration arrangements for certain senior executives, including the Chief Executive. The Committee is also responsible for the remuneration policy in regard to the Group's international senior executives, including those working with Synergy in global markets.

A key objective of the Group remuneration policy is to attract, retain and incentivise senior executives to grow shareholder value for the long term benefit of Carbery's shareholders. In this regard, the Committee is responsible for approving the terms of the Synergy Long Term Incentive Plan (LTIP) for certain senior executives responsible for the strategic development and future growth of the Synergy business.

The Committee, at its discretion, is also responsible for making recommendations to the Board in respect of the remuneration and expenses payable to Board members.

The Remuneration Committee met 3 times during the 2022 financial year.

Attendance at scheduled Board and Committee meetings during the financial year under review was as follows:

Board Member	Board	Audit Committee	Remuneration Committee
Cormac O'Keeffe	12/12		3/3
Dermot O'Leary[1]	5/5	3/3	2/2
Vincent O'Donovan[1]	7/7	3/3	1/1
Gerard Brickley	12/12		
Raymond Collins	12/12		3/3
Seamus Daly	12/12	6/6	
Peter Fleming	12/12	6/6	3/3
Pat Moriarty	12/12	6/6	
Peadar Murphy	12/12		
Donal McCarthy	12/12		3/3

1. Mr. Dermot O'Leary resigned as Board member and Chairperson of the Audit Committee on 15 June 2022. Mr. Vincent O'Donovan was appointed in his stead.

IMPORTANT EVENTS SINCE THE YEAR END

Global dairy commodity markets have weakened over recent months. The Group is monitoring the situation closely and taking any appropriate measures including reducing milk input prices in order to minimise the financial impact to the Group's operations in 2023.

FUTURE DEVELOPMENTS IN THE BUSINESS

The Group's strategy is to develop its international dairy, nutrition and taste business in developed and developing markets in the years ahead.

Further to the removal of quotas in April 2015 the Group's Irish based dairy and nutrition business has managed the transition to increased capacity and growth output well.

The ultimate emergence of a deal between the UK and EU in late 2020 has brought welcome stability to the transition of the UK from the EU. The Group's dairy and nutritional business successfully completed the construction and commissioning of a new mozzarella facility during 2020 and the past two years have witnessed its maiden years of production. This investment has enabled the business to broaden its cheese product portfolio and diversify into new markets since its commissioning in late 2020. As well as providing the business with necessary further capacity, the investment will help insulate the business from any negative effects consequential to the decision of the UK to leave the EU.

Building on another year of steady performance in 2022, the Group is confident that its taste business, Synergy, will continue to build on its increasing international presence and benefit from continuing strong growth rates in the years ahead. In addition to driving further organic growth within the existing business and further to the acquisition of Innova in the North American market during 2021, Synergy is committed to continuing its acquisitive growth strategy seeking further suitable acquisitions in its pursuit of growing market share internationally.

As an international food and food ingredients business, the Group will continue to focus and invest in its success enabling platforms of technology, innovation, research and development and people talent to ensure it is well positioned to outperform market growth rates.

COMMITTEE AND SECRETARY'S INTERESTS

The committee members are as listed on page 74.

Mr Dermot O'Leary resigned as Committee member on 15 June 2022 and Mr Vincent O'Donovan was appointed to the Committee on the same day.

Except for an indirect interest held by certain committee members in the four Co-Op 'A' shareholders and an interest in the 'B' ordinary shares received under the Patronage Loyalty Scheme and purchased under the Milk Supply Share Scheme, the committee members and the secretary had no interest in the shares of Carbery Creameries Limited or any of its trading subsidiaries at any time during the year.

RESEARCH AND DEVELOPMENT

Research and development plays a critical role in the success of the Group's activities. The Group continues to develop existing and new technologies and processes, establish centres of excellence in its critical markets and invest in procuring the best people to meet the ever changing needs of its global customer base.

CORPORATE RESPONSIBILITY

Employees

Carbery Group's success is dependent on the commitment, skills and creativity of its employees. Retaining employees and developing their skills is therefore central to the execution of the Group's strategy in the years ahead.

The Group will continue to pursue and ensure excellence in management and staff practices through the continued development and implementation of training and development programmes.

The Group is committed to the principle of equality and diversity and complies with all relevant equality and anti-discrimination legislation.

Environment

The Group is committed to all social and legal responsibilities in regard to the environment at large and is committed to growing its business in an environmentally responsible and sustainable manner.

This is borne out by the Group's continued programme of investment in facilities, processes and systems that monitor and manage waste emission, energy consumption, materials and packaging conservation. Our Sustainability report which is included provides further details and information on this.

Marketplace

Food quality and safety is of paramount importance to Carbery. The Group continues to invest in people, technologies, processes and facilities to ensure that the highest standards are maintained.

Communities

Carbery is committed to the local communities in which its facilities operate and encourages its businesses and people to support and participate in community based initiatives and projects.

PRINCIPAL RISKS AND UNCERTAINTIES

As a significant manufacturer of cheese and to a lesser extent cream and milk powder, a significant proportion of the Group's revenues are dependent on international dairy markets. Past experiences clearly illustrate the susceptibility of global dairy markets to periods of volatility. Notwithstanding the generally positive broader outlook for global food demand and consumption in the long term, there remains much uncertainty regarding dairy market returns in the medium and long term due to the ever present susceptibility to market volatility.

As outlined earlier, the post Brexit situation is stable but the business will continue to monitor and manage any emerging implications closely taking all necessary measures to minimise any impact on our suppliers and shareholders.

Global economic and geopolitical factors continue to influence the dynamics of international markets. The impacts of such factors are varied but can have a consequence in terms of market demand, market access or market returns which in turn has the potential to impact Carbery's business. Carbery continues to broaden its product portfolio as well as endeavouring to develop new markets thereby reducing both product and market specific risk. The Group takes an active role in ensuring its and its shareholders' interests are advocated within appropriate industry and governmental forums.

The Group is a major user of energy in the form of steam and electricity. Against an already increasingly uncertain global energy environment, energy prices have escalated dramatically and significantly as a consequence of geopolitical developments in Russia and Ukraine during 2022. The Group continues to monitor the situation closely and is taking any appropriate measures available to minimise the financial impact to the Group's operations in 2023. Energy price movements will continue to have a material impact on the business' cost base. Where appropriate the Group has forward hedges in place in respect of energy purchases from time to time.

Certain of the Group's activities have trade related foreign currency exposure most notably in Sterling and US Dollar. Where possible the Group manages these exposures by way of forward hedges. Further and sustained weakening in these currencies would lead to a deterioration in market returns and a possible decline in margins for elements of the Group's dairy and dairy ingredients businesses.

Cyber risk poses an increasingly significant challenge to international business organisations such as Carbery. The risk of malicious acts that seek to damage data, steal data, or disrupt business operations in general are increasingly predominant in today's business environment. Carbery, like many businesses, is endeavouring to ensure it is well positioned to defend its business interests from cyber threats by investing in the requisite resources and technologies to mitigate such risk. To that end a Chief Information Officer was recruited to the business in 2020 and active strategies are in place to mitigate any potential cyber risk to the Group's global interests.

Covid-19 has had a significant impact on global markets and supply chains in 2020 and 2021. The development and deployment of effective vaccines globally continues to have an increasingly positive impact on controlling the virus and as a result society at large has gradually opened up as the positive impact of the vaccine program has taken hold. Whilst 2021 saw continuing disruption to market activities with some sectors such as food service, travel and leisure continuing to be significantly impacted, 2022 augured much better from a market demand perspective seeing a gradual return to normal activity across most developed markets. The maintenance of such normal activity levels all hinges on the continuing success rates of the vaccine roll out and take up globally including the avoidance of further disruptions from virus variants. Over the course of 2022 disruptions to supply chains were still evident to varying degrees as markets attempted to cope with the return to normal activity as well as the unfolding geo-political uncertainty in Ukraine. In overall terms, Carbery's business has proven itself to be broadly resilient to the challenges posed by Covid-19 over the past few years. Overall the Group's exposure to food service and retail markets has a healthy balance and this has sustained it through the market collapses witnessed to the former market segment during these recent years.

Carbery continues to manage any residual supply chain constraints with minimised disruption evident to date for the Group and its customers needs.

Notwithstanding the beneficial impact of the global vaccine rollout, we are continuing to take all necessary steps and precautions to protect the health and wellbeing of our global workforce.

The Group has procedures in place to enable management and directors to continually monitor the performance of all areas of the business. These include the preparation of a detailed annual budget which is used for comparison with monthly management accounts throughout the year. In addition, such procedures include the reporting of key performance indicators such as EBITDA, gross margins, operating margins, free cash flow and return on capital employed (ROCE).

FINANCIAL INSTRUMENTS

The Group has an active approach to treasury and financial risk management operating a centralised treasury function to manage the financial risks of the Group. Key executives monitor the Group's foreign exchange rate and interest rate risks and ensure that the Group has sufficient credit facilities available. Financial exposures are managed by using appropriate and approved financial instruments.

Principal foreign currency exposures arise on Sterling and US Dollar purchases and receivables. Transaction exposure is managed by netting receivables and payables and then by hedging net flows. Translation exposure is not hedged. The Group minimises statement of financial position translation exposure by matching foreign currency investments with foreign currency borrowings.

The Group's exposure to interest rate risk is typically managed by optimising the mix of fixed and floating rate borrowings.

Group liquidity is presently funded from operating cash generation and term debt that is maturing between one and nine years.

The Group is considered a prime borrower and maintains strong relationships with key debt providers. The Group has performed strongly over recent years on key funding measurements of debt to EBITDA and EBITDA to interest. The Group recently completed a refinancing of its primary bank facilities with Allied Irish Banks, Bank of Ireland and Rabobank comprising term debt, revolving credit facilities (RCF's) and ancillary lines of credit in early 2022. The Group had already put additional funding in place during 2019 with the European Investment Bank to part fund the investment in our Irish operations.

POLITICAL CONTRIBUTIONS

The Group made no political donations or incurred any political expenditure during the current year or in the prior year.

ACCOUNTING RECORDS

The Committee is responsible for ensuring that proper books and accounting records are kept by the Group. To achieve this, the Committee has appointed appropriate personnel to ensure that those requirements are complied with. These books and accounting records are maintained at Dromidiclough, Ballineen, Co. Cork.

RELEVANT AUDIT INFORMATION

The committee believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Group's auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware.

On behalf of the Committee:

Cormac O'Keeffe
Chairman
15th March 2023

Vincent O'Donovan
Vice-Chairman
15th March 2023

SOCIETY INFORMATION

COMMITTEE

Cormac O'Keeffe[2]
(Chairman)

Vincent O'Donovan[1,2]
(Vice-Chairman)
(appointed 15 June 2022)

Dermot O'Leary[1,2]
(Vice-Chairman)
(resigned 15 June 2022)

Gerard Brickley

Raymond Collins[2]

Seamus Daly[1]

Peter Fleming[1, 2]

Donal McCarthy[2]

Peadar Murphy

Pat Moriarty[1]

Jason Hawkins
(CEO)

Colm Leen
(Secretary & CFO)

REGISTERED OFFICE

Dromidiclough,
Ballineen,
Co. Cork.

BANKERS

Allied Irish Banks plc,
10 Molesworth Street,
Dublin 2

Bank of Ireland plc,
40 Mespil Road,
Dublin 4

Rabobank Ireland plc,
76 Sir John Rogerson's Quay,
Dublin Docklands,
Dublin 2

European Investment Bank,
98-100, boulevard Konrad Adenauer,
L-2950 Luxembourg

SOLICITOR

Ronan Daly Jermyn,
2 Park Place,
City Gate Park,
Mahon Point,
Cork

AUDITOR

KPMG,
85 South Mall,
Cork.

1. Audit Committee Member
2. Remuneration Committee Member

COMMITTEE RESPONSIBILITIES STATEMENT

For the year ended 31 December 2022

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

The Industrial and Provident Societies Acts 1893 to 2021 requires the committee to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and applicable law.

The Society's financial statements are required by law to give a true and fair view of the state of affairs of the Society and of its surplus/deficit for that year. In preparing the financial statements, the Committee are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed
- and explained in the financial statements;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations,
- or have no realistic alternative but to do so.

The Committee are responsible for keeping adequate accounting records which enable them to prepare financial statements of the Society in accordance with the requirements of the Industrial and Provident Societies Act 1893 to 2021. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities. The Committee are also responsible for preparing the Annual Report that complies with the requirements of the Industrial and Provident Societies Act 1893 to 2021.

On behalf of the Committee:

Cormac O'Keeffe

Cormac O'Keeffe
Chairman
15th March 2023

Vincent O'Donovan

Vincent O'Donovan
Vice-Chairman
15th March 2023

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARBERY CREAMERIES LIMITED AND SUBSIDIARIES

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Carbery Creameries Limited and Subsidiaries ("the Society") for the year ended 31 December 2022 set out on pages 79 to 111, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued in the United Kingdom by the Financial Reporting Council.

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Society as at 31 December 2022 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with FRS102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland.*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Committee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Committee with respect to going concern are described in the relevant sections of this report.

Other information

The Committee are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Chairman's Statement, Chief Executive's Review and Committee Report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Our conclusions on the other matter on which we are required to report by the Industrial and Provident Societies Act 1893 to 2021 is set out below

As required by Section 13(2) of the Industrial and Provident Societies Act 1893 to 2021, we examined the balance sheets showing the receipts and expenditure, fund and effects of the Society, and verified the same with the books, deeds, documents, accounts and vouchers relating thereto, and found them to be correct, duly vouched, and in accordance with law.

RESPECTIVE RESPONSIBILITIES AND RESTRICTIONS ON USE

Responsibilities of Committee for the financial statements

As explained more fully in the Committee Responsibilities Statement set out on page 75, the Committee of management are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on IAASA's website at

http://www.iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/Description-of-the-auditor-s-responsibilities-for.

The purpose of our audit work and to whom we owe our responsibilities

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

Barrie O'Connell

16 March 2023

for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

85 South Mall

Cork

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2022

	Note	2022 (€'000)	2021 (€'000)
Turnover	2	700,841	535,650
Cost of sales		(548,814)	(405,353)
Gross profit		152,027	130,297
Administrative expenses		(125,623)	(105,019)
Operating profit	3	26,404	25,278
Share of (loss)/profit in joint ventures	9	(2)	133
Other interest receivable and similar income	5	27	8
Interest payable and similar charges	5	(2,489)	(1,707)
Other finance income - retirement benefit and other	5	25	12
Profit before taxation		23,965	23,724
Taxation on profit	6	(6,507)	(6,283)
Profit for the financial year attributable to the Owners of the parent society		17,458	17,441

On behalf of the Committee:

Cormac O'Keeffe
Chairman
15th March 2023

Vincent O'Donovan
Vice-Chairman
15th March 2023

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2022

	Note	2022 (€'000)	2021 (€'000)
Profit for the financial year		17,458	17,441
Other comprehensive income			
Remeasurement (loss)/gain recognised on defined benefit retirement benefit schemes	17	(371)	1,873
Movement on deferred tax relating to defined benefit pension schemes	17	(3)	(280)
Currency translation difference on net assets of subsidiary undertakings	20	6,554	8,949
Cash flow hedges:			
- Change in value of hedge instrument	20	(354)	672
- Reclassifications to income statement	20	(672)	(295)
Total other comprehensive income		**5,154**	**10,919**
Total comprehensive income for the year attributable to the Owners of the parent society		**22,612**	**28,360**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 (€'000)	2021 (€'000)
Non-current assets			
Intangible assets	7	42,933	47,550
Tangible assets	8	223,486	212,161
Financial assets	9	2,167	1,924
Pension surplus	17	2,263	2,243
		270,849	**263,878**
Current assets			
Stocks	10	116,880	80,952
Debtors (including amounts due after more than one year)	11	150,693	166,798
Cash at bank and in hand		16,592	14,743
		284,165	262,493
Creditors: falling due within one year	12	(120,521)	(118,778)
Net current assets		163,644	143,715
Total assets less current liabilities		434,493	407,593
Creditors: falling due after more than one year	13	(82,692)	(88,412)
Provisions for liabilities			
Deferred taxation	15	(9,818)	(10,824)
Other provisions	15	(24,098)	(12,677)
		317,885	**295,680**
Government grants	18	(6,084)	(6,488)
Net assets		**311,801**	**289,192**
Capital and reserves			
Called up share capital	19	86,549	86,398
Share reserve fund		2,802	2,293
Retained earnings		194,377	177,664
Other reserves	20	10,242	5,006
Shareholders' loans	24	-	17,831
Other Equity	25	17,831	-
Equity attributable to owners of the parent society		**311,801**	**289,192**

On behalf of the Committee:

Cormac O'Keeffe
Chairman
15th March 2023

Vincent O'Donovan
Vice-Chairman
15th March 2023

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2022

	Called up share capital (€'000)	Share reserve fund (Note 20) (€'000)	Retained earnings (€'000)	Other reserves (Note 20) (€'000)	Shareholders' and milk suppliers loans (Note 24) (€'000)	Other equity (Note 25) (€'000)	Total equity (€'000)
At 1 January 2021	86,291	1,973	158,263	(3,953)	17,831	–	**260,405**
Profit for the financial year	–	–	17,441	–	–	–	**17,441**
Other comprehensive expense	–	–	1,593	9,326	–	–	**10,919**
Total comprehensive income for the year	–	–	19,034	9,326	–	–	**28,360**
Transfer from revaluation reserves	–	–	367	(367)	–	–	**–**
Shares issued during the year	176	525	–	–	–	–	**701**
Shares repurchased during the year	(80)	(239)	–	–	–	–	**(319)**
Share conversions	11	34	–	–	–	–	**45**
At 31 December 2021	86,398	2,293	177,664	5,006	17,831	–	**289,192**
Profit for the financial year	–	–	17,458	–	–	–	**17,458**
Other comprehensive expense	–	–	(374)	5,528	–	–	**5,154**
Total comprehensive income for the year	–	–	17,084	5,528	–	–	**22,612**
Dividends paid	–	–	(663)	–	–	–	**(663)**
Transfer from Revaluation reserve	–	–	292	(292)	–	–	**–**
Shares issued during the year	161	541	–	–	–	17,831	**18,533**
Shares repurchased during the year	(55)	(185)	–	–	–	–	**(240)**
Share conversions	45	153	–	-	–	–	**198**
Shareholder loans repaid	–	–	–	–	(17,831)	–	**(17,831)**
At 31 December 2022	86,549	2,802	194,377	10,242	-	17,831	**311,801**

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2022

	2022 (€'000)	2021 (€'000)
Cash flows from operating activities		
Profit before tax	23,965	23,724
Working capital adjustments		
(Increase) in stock	(34,550)	(11,736)
Decrease/(Increase) in debtors	13,277	(5,679)
Increase in creditors	3,406	12,545
Adjustments for non-cash items:		
Increase in other provisions	11,422	1,619
Depreciation (net of grant amortisation)	17,916	17,691
Amortisation of intangibles	7,798	7,361
Loss on sale of fixed assets	1	1
Share of loss/(profit) in joint ventures	2	(133)
Net finance cost	2,462	1,698
Retirement benefit adjustments	(374)	1,593
Interest received	27	8
Finance costs paid	(2,554)	(1,705)
Defined benefit employer contributions paid	(366)	(358)
Corporation tax paid	(6,899)	(3,667)
Net cash inflow from operating activities	35,533	42,962
Cashflows from investing activities		
Purchase of tangible fixed assets	(27,572)	(26,510)
Purchase of intangible fixed assets	(296)	(614)
Receipts from sale of tangible fixed assets	21	38
Investment in subsidiary undertaking – Innova	-	(37,747)
Increase in unlisted investments	(300)	-
Receipts from government capital grants	1,975	-
Net cash outflow from investing activities	(26,172)	(64,833)
Cashflows from financing activities		
Issue of 'B' ordinary shares	900	746
Repurchase of 'B' ordinary shares	(240)	(319)
Issue of processing notes	414	568
Issue of 'B' ordinary shares in subsidiaries	17,831	-
Repayment of shareholder loans	(17,831)	-
Dividends paid	(663)	-
Loans drawdown	450	29,218
Loan repayments	(8,465)	(10,507)
Capital element of finance leases repaid	-	(14)
Net cash (outflow)/inflow from financing activities	(7,604)	19,692
Net increase/(decrease) in cash and cash equivalents	1,757	(2,179)
Effect of exchange rate fluctuations on cash held	60	1,028
Cash and cash equivalents at beginning of year	14,728	15,879
Cash and cash equivalents at end of year	**16,545**	14,728

CONSOLIDATED CASH FLOW STATEMENT (continued)

For The Year Ended 31 December 2022

	2022 (€'000)	2021 (€'000)
Cash and cash equivalents		
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	16,592	14,743
Bank overdrafts (Note 14)	(47)	(15)
Cash and cash equivalents	16,545	14,728

ANALYSIS OF NET DEBT

		(€'000)
(i)	**Reconciliation of net cash flow to movement in net debt**	
	Decrease in cash	1,757
	Loan repayments	8,464
	Loans drawn down	(450)
	Change in net debt resulting from cash flows	9,771
	Translation adjustment	(1,978)
	Movement in net debt in year	7,793
	Net debt at 1 January 2022	(79,562)
	Net debt at 31 December 2022	71,769

(ii) Analysis of changes in net funds

	At 31/12/2021 (€'000)	Net cash flow (€'000)	Acquisitions (€'000)	Exchange movement (€'000)	At 31/12/2022 (€'000)
Cash at bank and in hand	14,743	1,789	–	60	16,592
Bank overdrafts	(15)	(32)	–	-	(47)
Total cash and demand debt	14,728	1,757	–	60	16,545
Loans repayable	(94,290)	8,014	–	(2,038)	(88,314)
Finance leases and hire purchases	-	-	-	-	-
	(94,290)	8,014	–	(2,038)	(88,314)
Net debt	(79,562)	9,771	–	(1,978)	(71,769)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

1. ACCOUNTING POLICIES

(a) Statement of compliance

Carbery Creameries Limited ("The Group") is a registered society, incorporated, domiciled and registered in the Republic of Ireland. The address of the registered office is Dromidiclough, Ballineen, Co. Cork.

The society Group financial statements have been prepared in compliance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Ireland as it applies to the financial statements of the Group for the year ended 31 December 2022.

(b) Basis of preparation

The financial statements are prepared in Euro (€) which is the presentational currency of the Group and rounded to the nearest €1,000.

The Committee prepared these financial statements on a going concern basis. In making this judgement, management considered the Group's budget and cash flow forecasts for a period of at least twelve months from the date of approval of the financial statements which demonstrate that the Group will be in a position to meet its liabilities as they fall due. Accordingly, these financial statements do not include any adjustments to the carrying amount and classification of assets and liabilities that may arise if the Group was unable to continue as a going concern.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note (f).

(c) Basis of consolidation

The Group financial statements consolidate the financial statements of Carbery Creameries Limited and all its subsidiary undertakings drawn up to 31 December each year. A subsidiary is an entity that is controlled by the holding undertaking.

The results of the subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

An associate is an entity in which the Group has significant input but not control, over the operating and financial policies of the entity. Significant influence is presumed to exist when the investor holds between 20% and 50% of the equity voting rights.

A joint venture is a contractual arrangement undertaking in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity. The Group's share of the profits less losses of associates and of jointly controlled entities is included in the consolidated profit and loss account and its interest in their net assets is recorded on the balance sheet using the equity method.

These financial statements are prepared for the Group on a consolidated basis. The parent entity society accounts are prepared separately.

(d) Measurement convention

The financial statements are prepared on the historical cost basis except for certain assets and liabilities that are stated at their fair value including derivative financial instruments.

(e) Classification of financial instruments issued by the Group

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

(f) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following are the Group's key sources of estimation uncertainty:

Revenue and stocks

The sales of some products to Ornua are based on "on account prices" which are subject to adjustment when the prices are finally agreed. In some cases the time period between the date when the product is invoiced at the on account price and when the prices are finally agreed could be as much as up to a year or more. Preparation of the consolidated financial statements requires management to make certain estimates and assumptions around the expected realisation of their stock and debtor balance which affect the reported profits and assets of the Group. As with any estimate the actual outturn may differ to the estimate.

At the year end management, having estimated the expected realisation, reviewed the stock and debtor values, and if required as a consequence reduce stock to the net realisable value and make the required adjustment to the "on account" pricing for their debtor balance.

In their estimation process management typically consider previous pricing trends, predicted market variables including milk output, production volumes, currency trends, supply/demand dynamics and general global economics to derive their best estimate of the expected realisation prices.

Retirement benefit
The cost of the defined benefit retirement plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future retirement benefit increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and retirement benefit increases are based on expected future inflation rates in the Republic of Ireland. Further details are given in note 17.

Goodwill and intangible assets
The Group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Impairment of non-financial assets
The Group assesses at each reporting date or when indications exist whether any non-financial asset may be impaired. If any such indication exists the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. Value in use is determined as the discounted future cash flows of the cash generating unit (CGU). The key assumptions for the value in use calculations are discount rates, cash flows and growth rates during the forecasted period. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment charge in the income statement.

An impairment loss recognised for all non-financial assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Taxation
The Group establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 6.

Long Term Incentive Plan
The cost used in the valuation of the Long Term Incentive Plan ("LTIP") is subject to estimation. The terms of the plan are such that the participants are eligible to earn a bonus payment based on a calculation referenced to the growth in the profitability of the "Synergy Division". Management's estimation is required to determine the expected growth of the "Synergy Division". The value of the LTIP is determined by applying assumptions to the actual values at the date of grant of LTIP units which apply an underlying growth factor to the projections over the period of the LTIP.

(g) Turnover and revenue recognition and other income

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer, which is usually on delivery, at a fixed and determinable price, and when collectability is reasonably assured. Rebates to customers are provided for in the period that the related sales are recorded based on the contract terms. The sales of some products to Ornua are based on 'on account' prices which are subject to adjustment when the prices are finally agreed. Revenue in the year is adjusted for the estimated realisable value.

Interest income
Interest income is recognised as interest accrues using the effective interest method.

Dividend income
Dividends income is recognised when the Group's right to receive payment is established.

Convertible loan stock and trading bonus
Convertible loan stock and trading bonuses can be issued by Ornua to the Society, and other members, for each trading year based on qualifying trading activity. The trading bonus is recognised as income after approval by the Ornua Board occurs and payment becomes irrevocable and unconditional. The loan stock is recognised as income, on a discounted basis, when approval by the Ornua Board occurs and redemption

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

(g) Turnover and revenue recognition and other income (continued)

becomes irrevocable and unconditional. Any loan stock approved for redemption not yet redeemed is recognised as a receivable.

(h) Goodwill

Goodwill is stated at cost less accumulated amortisation and accumulated impairment losses.

Positive goodwill acquired on each business combination is capitalised, classified as an asset on the consolidated statement of financial position and amortised on a straight line basis over its expected or estimated useful life of 20 years.

Each year the goodwill will be reviewed for impairment indicators and an impairment loss will be booked where appropriate.

The fair value of the assets and liabilities are based on valuations using assumptions deemed by management to be appropriate. Professional valuers are engaged when it is deemed appropriate to do so.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

If a subsidiary, associate or business is subsequently sold or discontinued, any goodwill arising on acquisition that has not been amortised through the income statement is taken into account in determining the profit or loss on sale or discontinuance.

(i) Other intangibles

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives as follows:

Other intangibles	
Intangible formulae	5 to 10 years
Intangible process technology	5 to 10 years
Customer relationships	5 to 10 years
ERP Systems/Software	5 to 10 years

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period, previous estimates shall be reviewed and, if current expectations differ, the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

(j) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided at rates calculated to write off the cost less estimated residual value, of each asset, other than land, on a straight line basis over its expected useful life, as follows:

Buildings	40 years
Plant and machinery	3 to 20 years
Motor vehicles	5 years
IT systems and infrastructure	3 to 10 years

Depreciation methods, useful lives and residual values will be reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the society expects to consume an asset's future economic benefits.

Plant advances which are not in use, including buildings and equipment are not depreciated.

(k) Financial assets

Financial assets are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value through income statement). Subsequently, they are measured at fair value through income statement except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably which are recognised at cost less impairment until a reliable measure of fair value becomes available.

If a reliable measure of fair value is no longer available, the equity instrument's fair value on the last date the instrument was reliably measurable is treated as the cost of the instrument.

(l) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

- Raw materials and consumable stores comprise of purchase cost on a first-in, first out basis.
- In the case of finished goods, cost comprises purchase price of materials and an appropriate portion of labour and production overheads.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Maintenance stocks are held in order to provide sufficient spare parts to ensure efficient operation of essential plant and equipment used for manufacturing and ancillary supporting services. The stock are allocated to repairs on consumption and have been recorded at cost.

(m) Debtors and creditors

Trade and other debtors and trade creditors and other creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price less attributable transaction costs. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade and other debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Asset for carbon credits
Carbon credits purchased are accounted for at cost. Cost is determined on a first in first out basis. The cost of the asset is subject to impairment review.

Liability for carbon emissions
A liability is recorded as emissions are created. The liability is recognised at the cost of carbon credits on hand to the extent that there are sufficient credits on hand to meet the liability at any one time. Where there are insufficient carbon credits, then any excess liability is measured at the fair value of purchasing the additional carbon credits.

When the carbon credits are surrendered in settlement of a liability then both the asset and liability are derecognised.

(n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and in hand, bank overdrafts and short term deposits with an original maturity of three months or less.

(o) Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The assets and liabilities of overseas subsidiary undertakings, including goodwill, are translated into the presentation currency at the rate of exchange ruling at the statement of financial position date. Key income and expenses within each overseas statement of comprehensive income are translated at the particular average exchange rates prevailing for the period.

Exchange differences resulting from the retranslation of the net investment in overseas subsidiaries and joint ventures at closing rates together with the differences on the translation of their income statements are recognised in the statement of comprehensive income in the period and accumulated in the deferred translation reserve in the statement of financial position.

Rates used for translation of significant results and net assets into Euro:

Average rates (Turnover)

	2022	2021
US$	1.0515	1.1826
GBP£	0.8515	0.8597

Closing rates (31 December)

	2022	2021
US$	1.0667	1.1370
GBP£	0.8870	0.8413

(p) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination, a deferred tax liability/asset shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Corporation tax is provided on taxable profits at the current rates.

(q) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

(r) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

(s) Derivative financial instruments and hedging

The Group uses forward foreign currency contracts to reduce exposure on foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward foreign currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group applies hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies. The forward foreign exchange contracts are designated as cash flow hedges of forecasted transactions.

The Group may use certain gas forward contracts to hedge its future cash flow risk from movement in gas prices. These contracts are determined by Management to be 'own use' as they are entered into in accordance with the Group's expected purchase, sale or usage requirements. Certain other gas forward contracts are fair valued and the gain/loss crystalised on such contracts is recorded in the income statement and any unrealised gain/loss is recognised at the balance sheet date.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in other comprehensive income. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is taken directly to the income statement.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged asset or liability is derecognised or the hedging instrument is terminated.

(t) Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the statement of financial position and are depreciated over the shorter of the lease term and the asset's useful life. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the statement of financial position. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

(u) Government and other grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to the income statement so as to match them with the expenditure to which they relate.

Research and development tax credits claimed under legislation are treated in the same way as government grants and credited to the income statement in the year in which the expenditure to which they relate is charged.

(v) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable to the bank (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate charges amortisation is included in finance charges in the income statement.

(w) Accounting for Long Term Incentive Plan

Synergy, the international flavours division of Carbery Group, has a Long Term Incentive Plan (LTIP) in place. Phase 1 of the Synergy LTIP is in place since 2008 and allocations to participants under this phase ceased in 2014. Phase 2 commenced in 2015 with allocations to participants commencing the same year. The terms and conditions of the LTIP were approved by the Remuneration Committee under independent professional advice and in accordance with best governance standards.

Under the terms of the LTIP, certain senior executives in Ireland, the UK, Europe and the US (including executive directors) are invited to participate. The terms of the plan are such that the participants are eligible to earn a bonus payment based on a calculation referenced to the growth in the profitability of the "Synergy Division".

The Plan is a long term one and amounts which may be determined as due to the participants will therefore accrue over the term of the plan. Provision is made at each year end using the same accounting methodology as used for defined benefit retirement plans as detailed in the following note and based on the terms of the plan and taking account of the expected growth of the "Synergy Division". Once paid the amounts are included in the wages and salaries disclosure of the Group.

(x) Retirement benefit costs

The Group operates both defined benefit pension schemes and defined contribution pension schemes for its employees which require contributions to be made to separately administered funds.

Defined benefit pension scheme assets are measured using fair values; retirement benefit scheme liabilities are measured using the projected unit credit method which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statement as other finance income or cost.

Re-measurements, comprising actuar-ial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur.

Re-measurements are not reclassified to the income statement in subsequent periods.

The net defined benefit pension asset or liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly.

Fair value is based on market price information and in the case of quoted securities is the published bid price.

The value of a net defined benefit pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Contributions to defined contribution pension schemes are recognised in the income statement in the period in which they become payable.

(y) Research and development

Expenditure on research and development is charged to the income statement in the year in which the expenditure is incurred.

Development expenditure is capitalised in accordance with the following accounting policy.

Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefit.

(z) Shareholders' and milk suppliers' loans

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) There is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable.

(ii) The instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

The Group's shareholders' loans are classified as equity as there is no contractual obligation to repay the loans and are non-derivative in nature.

(aa) Financial liabilities

A financial liability is any liability that is:

(a) a contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and:

- (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- (ii) which will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Group's Processing Notes are classified as financial liabilities under Creditors: falling due after more than one year, as the notes may be redeemed, on cessation of milk supply, by milk supplier shareholders at an unspecified future date for cash at the price paid or may be settled by the delivery of a variable number of B Shares in the Society based on the prevailing share price as determined from the most recent valuation. The processing notes will be redeemed if milk supply falls below a minimum level.

(ab) Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company. At the acquisition date, the company recognises goodwill as:

- the fair value of the consideration transferred plus
- estimated amount of contingent consideration if any plus
- the fair value of the equity instrument plus
- directly attributable transaction costs plus
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

Please refer to note 21 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

2. TURNOVER

The amount of each category of revenue recognised in the year is as follows:	2022 (€'000)	2021 (€'000)
Sale of goods	700,841	535,650

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):	2022 (€'000)	2021 (€'000)
Research and development expenditure	7,621	6,979
Foreign exchange differences	177	147
Fair value adjustments on gas hedging contracts	(12,400)	-
Depreciation charge:		
Depreciation of owned assets (Note 8)	18,320	18,210
Amortisation of intangibles (Note 7)	7,798	7,362
Amortisation of government grants (Note 18)	(404)	(518)
Operating lease rentals:		
Land and buildings	768	455
Plant and machinery	166	97
Motor vehicles	125	130
(Profit)/ loss on disposal of fixed assets	(156)	1

To help mitigate the volatility in gas prices the Group purchased forward a portion of its gas requirements for 2022 and through to 2023. Netted within cost of sales is €12.4m related to positive fair value adjustments on certain gas contracts which were realised in the current year of €3.1m (2021 - €nil) and unrealised fair value adjustments related to 2023 contracts of €9.3m (2021 - €nil).

4. EMPLOYEES

The average number of persons employed by the Group (including executive directors) during the year, analysed by category, was as follows:	2022 Number	2021 Number
Production/operations/technical	707	649
Sales	102	109
Administration	134	124
	943	882

The aggregate payroll costs of these employees were as follows:	2022 (€'000)	2022 (€'000)
Wages and salaries	64,743	56,103
Social welfare costs	5,975	5,190
Retirement benefit and related costs	2,842	2,511
Other costs	3,608	3,006
Total employee costs	77,168	66,810
Long term incentive plan paid during the year	78	-
Total payroll related costs	77,246	66,810

Other costs include health insurance and other benefits paid. Total wages and salary costs included above that were capitalised during the year were €1.63m (2021: €0.06m).

5. INTEREST

	2022 (€'000)	2021 (€'000)
Other Interest receivable and similar income:		
Interest receivable on bank deposits	(27)	(8)
	(27)	(8)
Interest payable and similar charges:		
Interest payable on bank loans and overdrafts wholly repayable greater than five years	2,489	1,707
	2,489	1,707
Other finance income - retirement benefit and other:		
Retirement benefit finance (credit) (Note 17)	(25)	(12)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

6. TAXATION

Total tax expense recognised in the profit and loss account, other comprehensive income and equity	2022 (€'000)	2021 (€'000)
***(a)* Tax on profit**		
Current tax:		
Corporation tax on profit for the year	7,017	2,891
Adjustments in respect of prior years'	819	668
Group current tax	7,836	3,559
Share of joint ventures' current tax	-	–
Total current tax	7,836	3,559
Deferred tax:		
Origination and reversal of timing differences	(1,603)	2,745
Adjustments in respect of prior years	274	(21)
Utilisation of tax (losses)	-	–
Total deferred tax	(1,329)	2,724
Tax on profit	6,507	6,283
***(b)* Tax included in Statement of Other Comprehensive Income ("OCI")**		
Actuarial loss on retirement benefit scheme	3	280
Total tax charge recognised in OCI	3	280
***(c)* Factors affecting the total tax charge**		
The tax assessed for the year is different from the standard rates of corporation tax in Ireland. The differences are explained below:		
Profit before tax	23,965	23,724
Profit multiplied by the Irish standard rate of tax 12.5%	2,996	2,966
Effects of:		
Tax depreciation in year in (excess)/deficit of depreciation	(1,977)	1,730
Intangibles amortisation in excess/(deficit) of tax deduction	657	340
Tax exempt earnings and credits	(513)	(387)
Effect of tax rates in foreign jurisdictions	3,632	1,359
Expenses not deductible for tax purposes	1,136	178
Adjustments in respect of prior years	1,093	647
Others	(517)	(550)
Total Group tax	6,507	6,283

***(d)* Factors that may affect future tax charges**

The Group has tax losses and credits arising in Ireland of €8.8m that are available indefinitely for offset against future taxable profits of those companies in which losses and credits arose and are recognised as part of current assets either falling due within one year or after more than one year based on management's estimation on timing of recoverability.

Current or deferred tax assets are not recognised in respect of losses that arise in certain subsidiaries if there is insufficient certainty as to the timing of the ultimate utilisation of such tax losses.

The Group's overseas tax rates are higher than those in the Republic of Ireland primarily because the profits earned by the Synergy division are taxed at headline rates of 26.47% in the US and 19% in the UK. For 2023 these headline rates are projected to be 26.14% and 25% respectively. The Chancellor of the Exchequer in the UK announced in the 2021 UK Budget that corporation tax rates will increase to 25% from April 2023.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint venture as the Group has no commitment to repatriate funds that will be subject to taxation in Ireland in the foreseeable future.

6. TAXATION (Continued)

	2022 (€'000)	2021 (€'000)
***(e)* Deferred tax**		
The deferred tax included in the statement of financial position is as follows:		
Included in debtors (note 11)	1,078	1,081
Included in provision for liabilities (note 15)	(9,818)	(10,824)
	(8,740)	(9,743)
Deferred tax is recognised on the following:		
Accelerated capital allowances and tax depreciation	(10,771)	(12,135)
Arising on pension asset	(283)	(280)
Tax amortisation of goodwill and intangibles less than book amortisation	(763)	(289)
Other timing differences/expenses	3,077	2,961
	(8,740)	(9,743)
The movement in the deferred tax included in the statement of financial position is as follows:		
At beginning of year - net	(9,743)	(7,385)
Deferred tax credit/(charge) to income statement for the year	1,603	(2,745)
Deferred tax charge to the statement of other comprehensive income for the year	(3)	(280)
Origination of tax losses in the year	(3)	–
Adjustments in respect of prior years'	(274)	21
Arising on acquisitions (note 21)	-	1,049
Exchange adjustment	(320)	(403)
Provision at end of year - net	(8,740)	(9,743)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

7. INTANGIBLE ASSETS

	Goodwill (€'000)	Acquisition related intangible assets (€'000)	Computer software & other intangibles (€'000)	Total (€'000)
Cost:				
At 1 January 2022	94,099	41,596	11,646	147,341
Additions	-	-	60	60
Acquisition Reclassification	236	-	-	236
Effect of movements in foreign exchange	4,930	2,577	384	7,891
At 31 December 2022	**99,265**	**44,173**	**12,090**	**155,528**
Amortisation:				
At 1 January 2022	63,025	30,682	6,084	99,791
Amortised during the year	3,375	2,978	1,445	7,798
Effect of movements in foreign exchange	2,932	1,883	191	5,006
At 31 December 2022	**69,332**	**35,543**	**7,720**	**112,595**
Net book value:				
At 31 December 2022	**29,933**	**8,630**	**4,370**	**42,933**
At 31 December 2021	31,074	10,914	5,562	47,550

Goodwill and other intangibles primarily result from prior acquisitions within the Synergy division. Other intangibles include formulas, process technology and customer relationships separately identifiable at the respective acquisition dates. Goodwill and other intangibles are amortised over their expected useful lives and are also subject to annual impairment testing or more frequently if there are indicators of impairment. The amortisation of Goodwill and Other Intangibles charged to the Consolidated Income Statement in 2022 is €7.8m.

Under FRS 102, investments in ERP systems software are classified as intangible assets.

The recoverable amount of goodwill and intangibles allocated to a cash generating unit (CGU) is determined based on a value in use computation. Goodwill and intangibles acquired in a business combination are allocated to CGU's that are expected to benefit from the business acquisition. Where practically measurable and identifiable, intangible assets are sub-allocated within CGU's at specific location or site level or otherwise they are grouped at a geographical or divisional level.

The key assumptions employed in arriving at the estimates of future cash flows factored into impairment testing are subjective as they are based on a combination of management's past experience and estimates of future outcomes. Key assumptions include managements' estimates of future profitability, cash flow components and discount rates.

Cash flow forecasts, employed for the value in use calculations are for a five-year period approved by management and a terminal value which is applied to year five cash flows. The terminal value reflects the discounted present value of the cash flows beyond year five which is based on projected long term growth rates for the particular market in which the CGU operates. The present value of future cash flows is calculated using a pre-tax discount rate which is based on the Group's weighted average cost of capital (WACC) adjusted to reflect the risks associated with that specific CGU.

8. TANGIBLE FIXED ASSETS

	Land & buildings (€'000)	Leasehold improve-ments (€'000)	Plant & machinery owned (€'000)	Plant & machinery leased (€'000)	Motor vehicles (€'000)	Plant advances (€'000)	Total (€'000)
Cost:							
At 1 January 2022	116,877	3,349	281,363	181	199	6,156	408,125
Additions	10,841	4	14,062	-	21	2,032	26,960
Disposals	(29)	-	(2,362)	-	(14)	-	(2,405)
Transfers	2	-	641	-	-	(643)	-
Prior year acquisition related reclassification	(173)	-	(85)				(258)
Exchange adjustments	2,237	190	1,457	7	13	228	4,132
At 31 December 2022	**129,755**	**3,543**	**295,076**	**188**	**219**	**7,773**	**436,554**
Depreciation:							
At 1 January 2022	27,147	403	168,094	169	151	–	195,964
Charged during year	2,103	186	16,050	-	25	-	18,320
Disposals	(28)	-	(2,341)	-	(14)	-	(2,383)
Transfers	94	-	(94)	-	-	-	-
Prior year acquisition related reclassification	(8)		(14)	-	-	-	(22)
Exchange adjustments	177	23	931	7	7	-	1,189
At 31 December 2022	**29,485**	**612**	**182,626**	**176**	**169**	**-**	**213,068**
Net book value:							
At 31 December 2022	**100,270**	**2,931**	**112,450**	**12**	**50**	**7,773**	**223,486**
At 31 December 2021	89,730	2,946	113,269	12	48	6,156	212,161

9. FINANCIAL ASSETS

Joint ventures	2022 (€'000)	2021 (€'000)
At beginning of year	1,734	1,499
Share of (loss)/profit retained by joint ventures	(2)	133
Exchange movements	(55)	102
At end of year	1,677	1,734
Unlisted investments – at cost less impairment		
At beginning of year	190	190
Additions	300	–
At end of year	490	190
Total financial assets and investments	2,167	1,924

The Group's investment in Ornua Co-operative Limited (Ornua) is recognised at the nominal value of the shares held based on the Group's share of "B" ordinary and bonus shares in Ornua at €1 each.

Details of principal subsidiaries and joint ventures are included in note 26 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

10. STOCKS

	2022 (€'000)	2021 (€'000)
Raw materials	35,476	25,503
Consumable and maintenance stores	6,920	5,545
Finished goods	74,484	49,904
	116,880	80,952

A material portion of the Group's product portfolio is commodity in nature. There is a requirement at period end to review the carrying value or cost of certain stocks and compare this to their estimated selling price less costs to complete and sell (net realisable value or NRV) to ensure that stocks are valued at the lower of cost or NRV. Where the carrying value is greater than the estimated NRV, the Group makes a provision resulting in a charge to the income statement in the period. Should the final selling price less costs to complete and sell exceed the previously estimated NRV then the Group will reverse or credit this to the income statement in the subsequent period. The net charge to the income statement in the year resulting from year end reviews of cost versus NRV together with prior year reversals was €2.1m (2021: €1.1m).

In addition, stocks written off as an expense in the year were €2.4m (2021: €1.5m) for the Group.

11. DEBTORS

	2022 (€'000)	2021 (€'000)
Amounts falling due within one year:		
Trade debtors	118,407	141,078
Other debtors, prepayments and accrued income (i) (ii)	21,310	13,952
Convertible loan notes	257	316
Derivative financial instruments (note 27)	240	731
VAT receivable – Irish	2,550	2,301
Corporation tax:		
– Irish	1,210	529
– Overseas	4,592	5,370
	148,566	164,277
Amounts due after more than one year:		
Convertible loan notes	377	616
Corporation tax		
– Irish	672	824
Deferred tax		
– Irish	1,078	1,081
	2,127	2,521
	150,693	166,798

(i) included within prepayments is €3.2m (2021: €3.1m) relating to carbon credit assets.

(ii) included within other debtors is €9.3m (2021: Nil) relating to unrealised fair value adjustments on gas trades related to 2023 contracts.

12. CREDITORS: Falling due within one year

	2022 (€'000)	2021 (€'000)
Trade creditors	85,194	87,404
Other creditors including tax and social welfare (see below) (i)	24,087	22,256
Bank loans and overdrafts (note 14)	8,448	8,258
Amounts owed to related companies	2,197	802
Derivative financial instruments (note 27)	595	58
	120,521	118,778
Tax and social welfare included in other creditors:		
Corporation tax – Irish	508	813
Corporation tax – Overseas	448	-
PAYE	695	636
VAT payable -– Overseas	150	212
	1,801	1,661
Social welfare	501	495
	2,302	2,156

(i) included within other creditors is €2.1m (2021: €1m) relating to a liability for carbon emissions.

The bank facilities with AIB Bank plc, Bank of Ireland plc, Rabobank Ireland plc and European Investment Bank are secured by Group Composite Guarantees and Indemnities.

13. CREDITORS: Falling due after more than one year

	2022 (€'000)	2021 (€'000)
Processing notes	2,780	2,366
Bank loans (note 14)	79,912	86,046
	82,692	88,412

With effect from 1 January 2017 the Board agreed to the introduction of Processing Notes as an alternative to purchasing B shares for suppliers of New Milk i.e. in respect of all New Milk supplied from 1 January 2016. Each processing note costs €1.00 per unit and the Milk Supply Share Scheme requires each milk supplier to hold either 25 B shares or 25 Processing Notes per 1,000 litres of New Milk. The purchase of Processing Notes will rank equally with the purchase of B shares for the purpose of meeting the minimum standard under the Milk Supply Share Scheme.

The Processing notes will be redeemed on ceasing milk supply at the price at the time of purchase or if a supplier wishes to convert Processing Notes to B shares at a future date it is permitted to convert at the prevailing B share price at that date i.e. the price determined from the most recent B share valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

14. BANK BORROWINGS

	2022 (€'000)	2021 (€'000)
Bank overdrafts	47	15
Bank loans – amounts payable by equal instalments:		
Within one year	8,401	8,243
Between one and two years	8,401	8,243
Greater than two years	71,511	77,803
	88,360	94,304

Group loans wholly repayable are secured by a floating charge over the Group's assets.

The Group's bank borrowings are primarily denominated in Euro, US Dollar and Pound Sterling and amounts are borrowed at fixed and floating interest rates. Loans borrowed at floating rates are calculated by reference to Euribor, SOFR or SONIA of 1 to 6 months depending on the currency drawn plus an agreed margin that varies with the Group's net debt to EBITDA ratio. Following the completion, in February 2022, of the refinancing of the Group's multi-currency term and revolving credit facilities, these facilities are available for drawdown by the Society and certain subsidiaries and mature in February 2027 with options to extend to February 2028 and February 2029 subject to certain conditions being met.

An amortising term loan facility with EIB was put in place and drawn down in 2019 to part fund the Group's cheese diversification capital project. This loan is repayable in equal instalments over a 10-year period from commencement in February 2022 with the final repayment scheduled for November 2031. Interest rates are fixed for the duration of the term of this facility.

15. PROVISIONS FOR LIABILITIES

		2022 (€'000)	2021 (€'000)
Deferred tax:			
Provision at beginning of year		10,824	8,445
(Credit)/charge to the income statement for the year		(1,329)	2,724
Charge to the statement of other comprehensive income		3	280
Arising on acquisition		-	(1,049)
Exchange adjustments		320	424
Provision at end of year		9,818	10,824
Other provisions:	Note		
Long Term Incentive Plans (LTIP)	(i)	4,238	2,817
Stability fund	(ii)	19,860	9,860
		24,098	12,677
(i) LTIP:			
Provision at beginning of year		2,817	1,057
Paid during the year		(78)	–
Current service cost		1,416	1,734
Exchange movements		83	26
Provision at end of year		4,238	2,817
Due within one year		232	344
Due greater than one year		4,006	2,473

15. PROVISIONS FOR LIABILITIES (CONTINUED)

Synergy, the international flavours division of Carbery Group, has a Long Term Incentive Plan (LTIP) in place. This plan was implemented with an objective to attract, retain and incentivise senior executives to grow shareholder value of the Synergy business for the long term benefit of Carbery's shareholders. Phase 1 of the Synergy LTIP was in place since 2008 and allocations to participants under this phase ceased in 2014. Phase 2 commenced in 2015 with allocations to participants commencing the same year. As allocations to participants vest after three years, all allocations in Phase 1 of the scheme had vested in 2017. Phase 1 of the LTIP scheme concluded in 2019, when in accordance with the scheme rules, all vested allocations remaining unsold were fully divested. Phase 2 of the scheme will conclude in 2024 when the final year allocations for the second phase will vest. The LTIP is commensurate with similar schemes in various private and public companies and has been put in place under governance oversight by the Remuneration Committee of Carbery Group under independent advice. Benefits associated with the scheme are entirely performance based and are referenced to the additional shareholder value generated over the term of the plan. Whilst the actual cost of the LTIP cannot be determined until the scheme completion, which is 2024 for Phase 2, a provision is being made over the lifetime of the plan for the estimated total cost. A charge of €1.5m is included in the 2022 financial statements. This is relating to the estimated cost of the scheme attributable to 2022. If certain trading performance projections for Synergy materialise in future years (2023 to 2024) then, commensurate with the resulting increase in shareholder value, the total cost of the LTIP will be greater than the cost provided at 31 December 2022. Any increased cost will be reflected in the financial statements of the business over the remaining lifetime of the scheme between now and 2024. Total disbursements made to participants exercising their option to sell vested allocations under LTIP phase 2 amounted to €0.08m during 2022 (2021: €Nil).

(ii) Stability Fund:	2022 (€'000)	2021 (€'000)
Provision at beginning of year	9,860	10,000
Increase in the period	10,000	–
Support payments to milk suppliers	-	(140)
Provision at end of year	19,860	9,860
Due within one year	9,860	–
Due greater than one year	10,000	9,860

It was agreed by the Board of Carbery to increase the Stability Fund by €10m during the year to €19.86m from which it would make payments at a future date to Carbery's milk suppliers when it is required to lessen the impact of adverse milk price movements. There were €nil (2021: €0.1m)in milk support payments to shareholder suppliers from the stability fund during the year.

The Board believes that, on the basis of recurring market volatility, payments from the stability fund are likely to arise within a three-year period. The parameters governing the payment of the stability fund are such that, in any regard, payment will have to be affected no later than 3 years from the date of provision. This is on the basis that the supplier co-ops to whom the stability fund will be paid may, at their discretion, request Carbery to effect payment of any balance remaining in the stability fund three years from the date of provision. Based on these governing parameters it is anticipated that the €9.86m provision provided for in 2020 will be paid on or before 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

16. OBLIGATIONS UNDER LEASES

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2022		31 December 2021	
	Land & buildings (€'000)	Other (€'000)	Land & buildings (€'000)	Other (€'000)
Not later than one year	759	206	694	182
Later than one year and not later than five years	2,858	165	2,647	211
Greater than five years	7,607	-	7,346	-
	11,224	371	10,687	393

17. RETIREMENT BENEFIT COMMITMENTS

The Group operates both a defined benefit pension scheme and defined contribution pension scheme for its employees that require contributions to be made to separately administered funds. The schemes are funded by the payment of contributions to separately administered trust funds.

Annual contributions to the defined benefit pension scheme are based on the advice of independent actuaries.

The contributions for funding purposes to the defined benefit pension scheme are determined, using the projected unit credit method, by Mercer who are Actuaries to the schemes but are neither officers nor employees of the Group. The most recent actuarial valuation was carried out at 1 January 2020. The contribution made by the Group in respect of the current year was €366,000 (2021: €358,000). The actuaries' reports are not available for public inspection but the results are advised to members of the various schemes.

The valuation used for the defined benefit scheme has been based on the most recent actuarial valuation at 1 January 2020 and was updated by Mercer to take account of the requirements of FRS 102 in order to assess the liabilities of the schemes at 31 December 2022 and 31 December 2021. Scheme assets are stated at their market values at the respective statement of financial position dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

As of 31 December 2013 service costs in respect of future service in the Group's defined benefit scheme terminated. Effective 1 January 2014 there is no further accrual of service in the defined benefit scheme, with all future service being provided in the defined contribution scheme.

The total contributions to the defined benefit scheme in 2023 are expected to be €373,000 (2022: €366,000).

The Group participates in an industry-wide Irish Co-operative Societies' Retirement Benefit Scheme. This is a multi-employer defined retirement benefit scheme. However, as the underlying assets and liabilities attributable to individual employers cannot be identified on a consistent and reasonable basis, the Group has accounted for the retirement benefit scheme as if it was a defined contribution pension benefit scheme.

An Actuarial Funding Certificate was prepared with an effective date of 1 January 2020 and confirmed that the Scheme satisfied the Funding Standard set out in Section 44(1) of the Pensions Act, 1990 at that effective date. A Funding Standard Reserve Certificate was also prepared with an effective date of 1 January 2020 and confirmed that the Scheme held sufficient additional assets to satisfy the Funding Standard Reserve set out in Section 44(2) of the Pensions Act, 1990 at that effective date.

The financial assumptions relating to the return on investment, the rate of increase in pensionable pay or salaries, and price inflation are outlined in the actuarial valuation report.

The most recent full actuarial valuation of the Irish Co-operative Societies' Retirement Benefit Scheme was carried out on 1 January 2020. The report is available for inspection by Scheme members but is not available to the public.

The current contribution rate is 15.3% of pensionable pay (10.3% employer and 5% employee) for contributory members.

17. RETIREMENT BENEFIT COMMITMENTS CONTINUED

The net retirement benefit assets and liabilities are analysed as follows:	2022 (€'000)	2021 (€'000)
Scheme assets at fair value:		
Equity instruments	596	3,706
Debt instruments	16,392	19,934
Cash	116	238
Fair value of scheme assets	17,104	23,878
Present value of scheme liabilities	(14,841)	(21,635)
	2,263	2,243

The retirement benefit plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

The amounts recognised in the income statement and in the Group statement of other comprehensive income for the year are analysed as follows:

Movements in present value of the defined benefit obligation **Recognised in the income statement**	2022 (€'000)	2021 (€'000)
Current service cost	–	–
Recognised in arriving at operating profit	-	–
Net income on net defined benefit asset	25	12
Total recognised in the income statement	25	12

Recognised in other comprehensive income	2022 (€'000)	2021 (€'000)
Actual return on scheme assets	(5,801)	304
Less: amounts included in net interest on the net defined benefit liability (Note 5)	29	(332)
	(5,772)	(28)
Other actuarial gains	5,398	1,621
Remeasurement (losses)/gains recognised in other comprehensive income	(374)	1,593

Financial assumptions The major assumptions used by the actuaries are:	2022 (%)	2021 (%)
Inflation rate increase	2.50	2.00
Salary rate increase	n/a	n/a
Retirement benefit payment increase	0.00	0.00
Discount rate	4.10	1.10

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2046 at age 65 will live on average a further 24 years after retirement if they are male and a further 26 years after retirement if they are female.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

17. RETIREMENT BENEFIT COMMITMENTS (CONTINUED)

Changes in the present value of the defined benefit obligations are analysed as follows:	2022 (€'000)	2021 (€'000)
At beginning of year	21,635	23,789
Interest cost	229	206
Benefits paid	(1,593)	(1,800)
Remeasurement adjustments	(5,430)	(560)
At end of year	14,841	21,635

The defined benefit asset comprises €2,263,000 (2021: €2,243,000) from plans that are wholly or partly funded.

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Changes in the fair value of scheme assets:	2022 (€'000)	2021 (€'000)
At beginning of year	23,878	24,798
Actual loss on plan assets	(5,801)	305
Interest income	254	217
Employer contributions	366	358
Benefits paid	(1,593)	(1,800)
At end of year	17,104	23,878

	2022 (€'000)	2021 (€'000)
Non-current assets		
Pension surplus	2,263	2,243
Provisions for liabilities		
Deferred tax	(283)	(280)
The Income Statement and Statement of Other Comprehensive Income pension bookings are recorded as follows:		
Pension surplus	20	2,243
Deferred tax	(3)	(280)
Pension costs and interest	(391)	(370)
	(374)	1,593

The contributions payable by Carbery Group to defined contribution schemes are charged to the income statement in the year in which they relate and amounted to €2,424,990 (2021: €2,095,907) for the year. The amount outstanding at year end was €88,557 (2021: €97,213).

18. GOVERNMENT GRANTS

Cost:	2022 (€'000)	2021 (€'000)
At beginning of year	16,488	14,514
Recognised during the year	-	1,974
At end of year	16,488	16,488
Amortisation:		
At beginning of year	10,000	9,482
Amortised during the year	404	518
At end of year	10,404	10,000
Net book value:		
At end of year	6,084	6,488
Between one and two years	383	404
Between two and five years	1,525	1,527
In more than five years	4,176	4,557
	6,084	6,488

The Group received a number of grants in prior years which are being amortised over the useful economic lives of the tangible assets which they relate to. The grants received includes a €5.8m Enterprise Ireland capital grant for the cheese diversification investment in the Ballineen facility that was fully recognised in 2020 (€3.8m) and 2021 (€2m).

19. SHARE CAPITAL

Allotted, called up and fully paid:	2022 (€'000)	2021 (€'000)
'A' ordinary shares of €1 each	75,805	75,805
'B' ordinary shares of €1 each:		
At beginning of year	10,593	10,486
Issued during the period	161	176
Repurchased during the period	(55)	(80)
Share conversions	45	11
At end of year	10,744	10,593
	86,549	86,398

The Milk Supply Share Scheme was launched for the milk suppliers of the Group's parent Society 'A' shareholders during 2012. The purpose of the Milk Supply Share Scheme is essentially twofold. Firstly, to ensure that Carbery was well positioned to efficiently manage the expected growth in milk supply volumes subsequent to the removal of milk quota limits in 2015 and secondly, to enable milk suppliers share in the future growth of Carbery by the provision of an exit mechanism for suppliers retiring from milk supply in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

19. SHARE CAPITAL (CONTINUED)

In 2021 the Board of Carbery introduced the Share Redemption Exit Plan (SREP) as part of the Milk Supply Share Scheme. The purpose of the SREP is to enhance the manner in which long term milk suppliers can share in the equity value being created by Carbery. Under the SREP retiring milk suppliers whose milk has been supplied to Carbery for not less than 20 years will receive an enhanced value (equivalent to one bonus B share for each two B shares held) at retirement for each B share held under the Milk Supply Share Scheme should they apply to have their shares redeemed (and subject to their application being approved by the Board).

During the year ended 31 December 2022, 160,636 'B' ordinary shares were issued, 45,207 'B' ordinary shares were converted from processing notes and 54,952 'B' ordinary shares were repurchased by the Society under the terms of the scheme.

Share rights

Voting rights:

'A' ordinary shareholders have full voting rights whilst 'B' ordinary shareholders are entitled only to vote on special resolutions.

Dividends:

'A' ordinary shareholders only have the right to receive dividends.

Winding up:

'A' and 'B' ordinary shareholders rank pari passu in the event of the winding up of the society.

20. OTHER RESERVES

	Non-distributable capital reserve (€'000)	Deferred translation reserve (€'000)	Cash flow hedge reserve (€'000)	Total (€'000)
At 1 January 2022	2,101	2,233	672	5,006
Translation gain	-	6,554	-	6,554
Change in value of hedge instrument	–	–	(1,026)	(1,026)
Reclassifications to retained earnings	(292)	–	–	(292)
At 31 December 2022	1,809	8,787	(354)	10,242

Non-distributable capital reserve

This reserve is used to record increases in the fair value of land, buildings, property, plant and equipment and decreases to the extent such decrease relates to an increase on the same asset. This non-distributable reserve will be released to retained earnings at the end of the remaining useful lives of the tangible assets that have been subject to fair value increases and decreases.

Deferred translation reserve

This reserve represents the exchange movements on foreign currency earnings, investments and borrowings in subsidiary undertakings.

Cash flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date. €1,026,910 is made up of the net movements in cash flow hedges and the effective portion of the forward exchange contracts, net of tax.

Share reserve fund

Also, included in Other Reserves (presented separately in the Statement of Changes in Equity) is a share reserve fund. The balance at 31 December 2022 is €2.8m (2021: €2.3m). This reserve is used to record the premium arising on the subscription for "B" ordinary shares and on the conversion of processing notes into "B" ordinary shares. This reserve is released when "B" ordinary shares are repurchased by the Society.

21. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS

The Group acquired 100% of the Innova Flavors assets from Griffith Foods Group Inc in May 2021.	Book value (€'000)	Fair value adjustment (€'000)	Acquisition Reclassification (€'000)	Adjusted value (€'000)
Tangible assets	13,624	(2,961)	(236)	10,427
Inventory	3,485	(1,448)	-	2,037
Formulas	–	4,597	-	4,597
Trade names	–	2,047	-	2,047
Customer contracts and relationships	–	4,541	-	4,541
Deferred taxation arising on acquisition	–	1,049	-	1,049
Net identifiable assets	17,109	7,825	(236)	24,698
Goodwill arising on acquisition			236	13,049
Total cost of acquisition			-	37,747
Discharged by:				
Purchase consideration				
- cash paid				37,166
- acquisition costs				581
				37,747

The acquisition method has been used to account for businesses acquired in the Group's financial statements. The valuation of the fair value of assets acquired in the Innova acquisition was undertaken during the period with the resulting fair value adjustments to acquired book values disclosed above with any material adjustments to be made within the measurement period. A deferred tax asset of €1m is recognised in relation to these fair value adjustments. The fair values of the acquired intangibles of formulas, trade names, customer contracts and relationships are amortised over their expected useful economic lives of 5 years.

The goodwill is attributable to the expected profitability, revenue growth, future market development and assembled workforce of the acquired business and the synergies expected to arise with the Group after the acquisition. Goodwill is amortised over its expected useful life of 20 years.

Acquisition-related costs of €0.6m were incurred primarily on professional fees and are included within the overall goodwill value.

Following the completion of a post-acquisition review of the purchase price allocation, a net amount of €0.236m (cost: €0.258m less depreciation of €0.022m) was reclassified from tangible fixed assets to goodwill during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

22. COMMITMENTS

Future capital expenditure approved by the Committee but not provided for in these financial statements is as follows:

	2022 (€'000)	2021 (€'000)
Contracted for	8,013	4,235
Authorised but not contracted for	30,107	17,616
	38,120	21,851

The Group has outstanding trade related gas forward purchase contracts for GBP£5.5m (€6.17m) at the year end. The fair value of these contracts was (GBP£2.9m) (€3.3m) at the year end.

The Group also has gas forward purchase contracts for GBP£11.5m which have been offset by open sell contracts for GBP£19.8m. The (net) fair value of these contracts was GBP£8.3m (€9.3m) at the year end. This has been reflected on balance sheet within Other Debtors – see note 11.

Fixed Milk Price Schemes (FMPS)

The Group operated voluntary Fixed Milk Price Schemes (FMPS) to offer all shareholder milk suppliers' price certainty, in the context of fluctuating and volatile market pricing, on a portion of their milk supply.

FMPS 7 commenced on 1 January 2021 and ends on 31 December 2023 and the total volume allocated and subscribed for approximates 3% of the 2020 milk supplied to the Group. FMPS 8 commences on 1 January 2022 and ends on 31 December 2024 and the total volume allocated and subscribed for approximates 0.001% of the 2021 milk supplied to the Group.

The Group is committed to making the contracted fixed milk price payments under the FMPS but it does not carry any forward market hedging exposure on the sale of the Group's products, associated with the milk supplied under these schemes, as the sale of these products are hedged through the entry into forward sale agreements.

23. CONTINGENCIES

(a) The Group's subsidiary bank borrowings and overdrafts are secured by a Group Composite Guarantee and Indemnity. The Group has guaranteed bank borrowings and overdrafts at year end of € 88.3 m (2021: €94.3m) and has in addition guaranteed performance bonds and letters of credit at the end of the year totalling €5.1m (2021: €5.1m). The Group has an ongoing funding requirement that is satisfied by bank facilities and trade related working capital facilities. Arising from the provision of these finance facilities the Group has to comply with certain loan covenants and during the year ended 31 December 2022, the Group has been in compliance with these loan covenants. The Group's primary bank facilities comprising term debt, revolving credit facilities (RCF's) and ancillary lines of credit now mature in February 2027.

(b) The Group has recognised government grants amounting to €5.8m (2021: €5.8m) which may be revoked, rebated or cancelled in certain circumstances set out in the agreements. The Group has provided a parental guarantee for €5.8m to Enterprise Ireland related to an approved capital grant for the cheese diversification investment in the Ballineen facility that was fully recognised in 2020 (€3.8m) and 2021 (€2m).

(c) In accordance with the provisions of Section 357(1(b)) of the Companies Act 2014, the Society has irrevocably guaranteed all liabilities and losses of its Irish subsidiary undertakings, Carbery Food Ingredients Limited, Carbery Investments (Ireland) Limited, Carbery Cheese Services Limited, Carbery Group Treasury Operations Designated Activity Company, Carbery Investments (Bandon) Limited, Carbery Investments (Barryroe) Limited, Carbery Investments (Drinagh) Limited and Carbery Investments (Lisavaird) Limited in respect of the financial year as are referred to in Part III, Section A, Paragraph 14 of that Act, for purposes of enabling the subsidiaries to claim exemption from the requirement to file their own financial statements with the Registrar of Companies.

Valuable security has not been provided by the Society in respect of the guarantees. The above disclosure has been made merely to comply with statutory requirements concerning the filing exemption referred to, as, in the committee's opinion, the likelihood of crystallisation of the contingency is remote.

24. RELATED PARTY TRANSACTIONS AND CONTROLLING PARTIES

The majority of the Society is controlled and owned by four 'A' shareholders, Drinagh Co-Operative Limited, Bandon Co-Operative Agricultural & Dairy Society Limited, Barryroe Co-Operative Limited and Lisavaird Co-Operative Creamery Limited. The Group sources a substantial part of its raw materials from its 'A' shareholders who in turn source from the "B" shareholders.

During the year ended 31 December 2022, total raw material purchases from the 'A' shareholders were €367m (2021: €244m). At 31 December 2022, the Group was owed €0.1m (2021: €0.3m) by and owed €79m (2021: €80.2m) to its shareholders.

Carbery Food Ingredients Limited purchases whey protein concentrate from its joint venture company, Barbery Limited. Total purchases during the year amounted to €13.9m (2021: €11.5m). Amounts due to Barbery Limited at 31 December 2022 amounted to €1.9m (2021: €0.8m) (Note 12).

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities are unsecured, interest free and cash settlement is expected within normal market credit terms. The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2022, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2021: €Nil).

Key management personnel

Executive directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. This includes individuals working across the Group and employed in markets in Ireland, UK, Europe and USA.

Total remuneration in respect of these individuals in 2022 (14 Executives) (2021: 16) is made up of the following components:

- Basic salary cost of €3.50m (2021: €3.52m) paid to individuals and which is normally set at market rates for equivalent roles
- Employer social insurance costs (ancillary to salary costs) which amounted to €0.41m (2021: €0.43m)
- Retirement benefits paid by the employer to provide retirement benefits amounted to €0.43m (2021: €0.43m) for the year
- Other benefits which amounted to €0.23m (2021: €0.25m) for the year
- Performance related bonus / provision for future LTIP amounted to €3.31m (2021: €3.33m) for the year.

Synergy, the international flavours division of Carbery Group, has a Long Term Incentive Plan (LTIP) in place. This plan was implemented with an objective to attract, retain and incentivise senior executives to grow shareholder value of the Synergy business for the long term benefit of Carbery's shareholders. Phase 1 of the Synergy LTIP is in place since 2008 and allocations to participants under this phase ceased in 2014. Phase 2 commenced in 2015 with allocations to participants commencing the same year. As allocations to participants vest after three years all remaining unvested allocations in Phase 1 vested during 2017 and Phase 1 of the scheme concluded in 2018 when all remaining allocations for this phase were divested by participants. Phase 2 of the scheme will conclude in 2024 when the final year allocations for the second phase will vest. The LTIP is commensurate with similar schemes in various private and public companies and has been put in place under governance oversight by the Remuneration Board of Carbery Group under independent advice. Benefits associated with the scheme are entirely performance based and are referenced to the additional shareholder value generated over the term of the plan. Whilst the actual cost of the LTIP cannot be determined until 2024 for Phase 2, provision is being made over the lifetime of the plan for the estimated total cost. Further details of the LTIP including total provisions as at 31 December 2022 are outlined in Note 15 to the financial statements.

The total cost of the above components of remuneration in 2022 is €7.88m (2021: €7.96m).

Cost attributable to overseas employees has been translated from the local currency to euro at average rates of exchange.

Non-Executive Directors

Total remuneration paid in 2022 to 10 (2021: 11) non-executive directors was €207,179 (2021: €250,770) and together with employer social insurance contributions of €18,326 (2021: €23,017), the total remuneration cost was €225,505 (2021: €273,787).

Shareholders' loans	2022 (€'000)	2021 (€'000)
'A' shareholder loans	-	17,831

The majority of the Society is owned by four 'A' shareholders, Drinagh Co-Operative Limited, Bandon Co-Operative Agricultural & Dairy Society Limited, Barryroe Co-Operative Limited and Lisavaird Co-Operative Creamery Limited.

The shareholder loans were repaid in full during the year with the consent of the banks of the Society.

The loans were non-interest bearing and were subordinated to the rights of the banks in relation to bank facilities provided to the Society and its subsidiaries including all monies due to the banks in respect of principal, interest or otherwise. The subordinated loans were secured by a debenture ranking in priority after the rights of the banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

25. OTHER EQUITY

	2022 (€'000)	2021 (€'000)
At beginning of year	–	-
Issuances	17,831	-
At end of year	17,831	-

During the year, 17,831,487 "B" shares of €1.00 each were issued to the four "A" shareholders Drinagh Co-Operative Limited, Bandon Co-Operative Agricultural & Dairy Society Limited, Barryroe Co-Operative Limited and Lisavaird Co-Operative Creamery Limited by wholly owned subsidiary companies, Carbery Investments (Bandon) Ltd, Carbery Investments (Barryroe) Ltd, Carbery Investments (Drinagh) Ltd and Carbery Investments (Lisavaird) Ltd. These shares are redeemable, at par, at the separate option of the companies at any time on or after 17 February 2042 by notice in writing to the shareholders and the company.

During the year, €0.663m (2021: €Nil) was paid in dividends to those "A" shareholders of the 'B' ordinary shares in subsidiary companies.

26. SUBSIDIARIES AND JOINT VENTURES

At 31 December 2022 the Society had the following principal subsidiaries:

Principal subsidiaries

Company Name	Nature Of Business	Registered Office	% Voting Rights
Carbery Food Ingredients Limited	Food ingredients and alcohol	Ballineen, Co. Cork	100
Carbery Group Treasury Operations Designated Activity Company	Intercompany financing	Ballineen, Co. Cork	100
Carbery Investments (Bandon) Ltd	Investment Holding	Ballineen, Co.Cork	100
Carbery Investments (Barryroe) Ltd	Investment Holding	Ballineen, Co.Cork	100
Carbery Investments (Drinagh) Ltd	Investment Holding	Ballineen, Co.Cork	100
Carbery Investments (Lisavaird) Ltd	Investment Holding	Ballineen, Co.Cork	100
Carbery Asia PTE Limited	Flavour ingredients	111 North Bridge Road, #06-20 Peninsula Plaza, Singapore 179098	100
Carbery (UK) Limited	Investment holding company	2 Hillbottom Road, Sands Industrial Estate, High Wycombe, Buckinghamshire, UK	100
Synergy Flavours Limited	Flavour ingredients	2 Hillbottom Road, Sands Industrial Estate, High Wycombe, Buckinghamshire, UK	100
Synergy Flavours (Thailand) Limited	Flavour ingredients	888/22 Moo 9 Soi, Roongcharoen, Lieb Klong, Suvarnabhumi Road, Bangpla, Bangplee, Samutprakarn, Thailand 10540	100
Synergy Flavours (Italy) Societa'perAzioni	Flavour ingredients	Strada per i Laghetti, 34015 Muggia, Trieste, Italy	100
Synergy Flavors Inc.	Flavour ingredients	1500 Synergy Drive, Wauconda, Illinois, USA	100
Synergy Flavors NY LLC	Flavour ingredients	1500 Synergy Drive, Wauconda, Illinois, USA	100
Synergy Flavors (OH) LLC	Flavour ingredients	1500 Synergy Drive, Wauconda, Illinois, USA	100
Synergy Flavors Innova LLC	Flavour ingredients	1500 Synergy Drive, Wauconda, Illinois, USA	100
Synergy Aromas Ltda	Flavour ingredients	Rua Jose De Rezende Meirelles, 3835 Santa, Candida, Vinhedo, Sao Paulo, Brazil	100

26. SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

Joint venture company

Company Name	Nature Of Business	Registered Office	% Voting Rights
Barbery Limited	Manufacture and sale of food ingredients	Maryland Farm, Ditcheat, Shepton Mallet, Somerset, UK	50

All shareholdings consist of ordinary shares.

27. FINANCIAL INSTRUMENTS

	2022 (€'000)	2021 (€'000)
Financial assets measured at cost less impairment		
Unlisted investments	490	190
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	118,407	141,078
Other debtors	26,420	19,920
Loan notes	634	932
Financial liabilities measured at amortised cost		
Trade creditors	(86,047)	(88,241)
Other creditors	(28,158)	(24,559)
Bank overdraft	(46)	(15)
Loans	(88,313)	(94,290)

Cash flow hedges - foreign currency risk

The Group purchases forward foreign currency contracts to hedge currency exposure on highly probable forecast transactions denominated in a foreign currency. The expected future sales and purchases which are hedged are expected to occur throughout 2023 (2021: throughout 2022). As at 31 December 2022, a net unrealised loss of €1,026,910 (2021: net unrealised gain €376,824) was included in other comprehensive income in respect of the contracts. This amount which was retained in other comprehensive income at 31 December 2022 and 2021 is expected to mature and affect the income statement in 2023 and 2022 respectively. The amount that was reclassified from equity to the income statement for the periods is disclosed in note 20.

Gas Forward Contracts

To mitigate the volatility in gas prices the company purchased forward a portion of its gas requirements for 2022 and through to 2023. Netted within cost of sales is €12.4m related to positive fair value adjustments on certain of its gas contracts which were realised in the current year of €3.1m (2021 - nil) and unrealised fair value adjustments related to 2023 contracts of €9.3m (2021 - nil).

At 31 December 2022, the Group had derivative assets of €22.5m and derivative liabilities of €13.6m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022 (Continued)

27. FINANCIAL INSTRUMENTS CONTINUED

Carrying amounts and fair values of financial instruments held at fair value

The fair value of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

Financial asset 2022	Carrying amount 2022 (€'000)	Fair Value 2022 (€'000)	Level 1 2022 (€'000)	Level 2 2022 (€'000)	Level 3 2022 (€'000)
Derivative asset	22,540	22,540	-	22,540	-
Total financial assets at fair value	22,540	22,540	-	22,540	-
Financial liability 2022					
Derivative liability	13,595	13,595	-	13,595	-
Total financial liabilities at fair value	13,595	13,595	-	13,595	-

Financial asset 2021	Carrying amount 2021 (€'000)	Fair Value 2021 (€'000)	Level 1 2021 (€'000)	Level 2 2021 (€'000)	Level 3 2021 (€'000)
Derivative asset	731	731	-	731	-
Total financial assets at fair value	731	731	-	731	-
Financial liability 2021					
Derivative liability	58	58	-	58	-
Total financial liabilities at fair value	58	58	-	58	-

Level 2 valuation techniques

The derivative assets and liabilities are valued by reference to current forward exchange rates for contracts with similar maturity profiles.

28. SUBSEQUENT EVENTS

There have been no significant events affecting the group after year end.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The Committee approved the financial statements on 15th March 2023.

CARBERY