



# A world of Taste & Nutrition

Kerry Group Annual Report 2012





Kerry Group is a world leader in food ingredients and flavour technologies, serving the food, beverage and pharmaceutical industries, and also a leading consumer foods processor and supplier in selected EU markets.





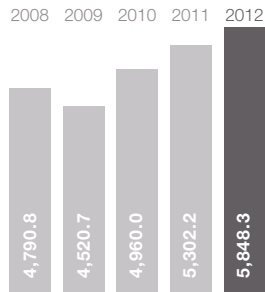
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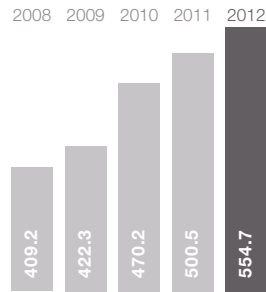




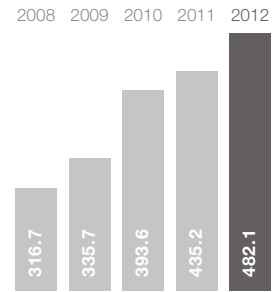
# Results 2012



Revenue  
(€ Million)



Trading profit  
(€ Million)



Profit before taxation and non-trading items  
(€ Million)

Sales revenue up 10.3% to

**€5.8 billion**

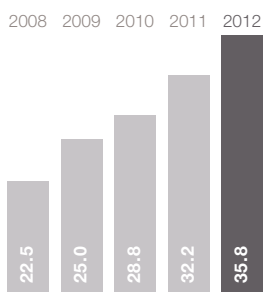
Trading profit up 10.8% to

**€555 million**

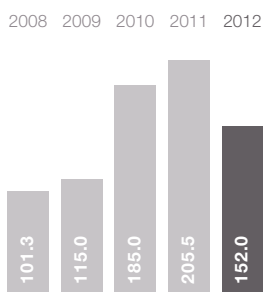
Adjusted\* EPS up 11.3% to

**237.6 cent**

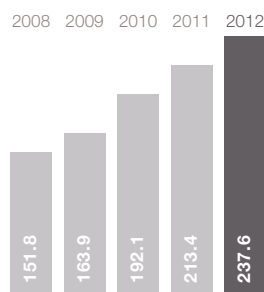




Dividend per share (cent)



Basic earnings per share (cent)



Adjusted\* earnings per share<sup>(1)</sup> (cent)



Total dividend per share up 11.2% to

**35.8 cent**

R&D investment of

**€186 million**

Free cash flow of

**€380 million**

\*Before brand related intangible asset amortisation and non-trading items (net of tax). Note 1: 2008 to 2010 re-presented to treat computer software amortisation as a cost in calculating adjusted EPS.

**Review of 2012**

Kerry maintained solid earnings growth with adjusted earnings per share increased by 11.3% to 237.6 cent.

The Board recommends a final dividend of 25 cent per share (an increase of 11.6% on the 2011 final dividend) payable on 10 May 2013 to shareholders registered on the record date 12 April 2013.

The Group performed well in all key developed markets and continued to extend its market positions in developing markets.

Volume growth and trading performance in Ingredients & Flavours' markets improved sequentially as the year progressed.

Kerry Foods maintained a satisfactory overall business performance through product innovations and ongoing business efficiency improvements.

Our 1 Kerry Business Transformation Programme is well underway across all operations and functional workstreams to leverage the Group's global expertise - optimising manufacturing scale and efficiency benefits.

# Chairman's Statement

Denis Buckley  
Chairman



**I am pleased to report a strong Groupwide performance in 2012. Kerry performed well across developed and developing markets while continuing to invest considerable financial and management resources in building our capabilities and positioning for the future.**

The strength of the Kerry business model is evidenced by the continued growth and success of the organisation, notwithstanding challenging economic conditions in some developed markets. Equally the spread and depth of Group technologies and our investment in innovation & technology development through our Kerry Centres, continues to capitalise on growth opportunities arising from changing consumer and market trends, and enhances our valued customer alliances.

Our consumer foods' business has successfully withstood sustained competitive challenges across the division's selected categories in the Irish and UK markets due to constrained consumer spending and increased promotional activity at retail level.

## Results

Group sales revenue increased by 10.3% to €5.8 billion. Adjusted profit after tax before brand related intangible asset amortisation and non-trading items increased by 11.4% to €417m. Adjusted earnings per share increased by 11.3% to 237.6 cent (2011 : 213.4 cent).

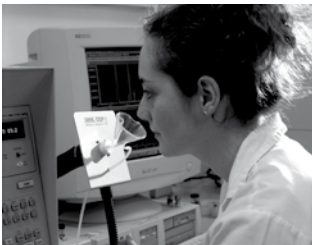
## Strategic Development

Details of the performance of Group businesses in 2012 are presented in the Chief Executive's Review and in the Business Reviews of the report.

Our 1 Kerry business model, leveraging Kerry's capabilities on a global basis to provide industry-leading integrated customer solutions, continues to provide excellent opportunities for growth in collaboration with our global and regional customers. Increased investment in product innovation in the Group's consumer foods' businesses in the UK and Ireland continues to deliver greater product differentiation supporting development of Kerry Foods' brands and growth in selected private label categories.

## Dividend

The Board recommends a final dividend of 25 cent per share (an increase of 11.6% on the 2011 final dividend) payable on 10 May 2013 to shareholders registered on the record date 12 April 2013. When combined with the interim dividend of 10.8 cent per share this brings the total dividend for the year to 35.8 cent, an increase of 11.2% relative to the previous year.



### Board Changes

As I stated in our 2011 Annual Report, Board members were deeply saddened at the passing of our Board colleague Kevin Kelly whose death occurred on 4 January 2012. Kevin served as a Director of the company since 2001 and made an invaluable contribution to the development of the Group.

Noel Greene retired from the Board prior to year-end and I would like to record my appreciation to Noel for his contribution and service to Kerry over many years.

I would like to welcome Sean Bugler, Joan Garahy, Michael Teahan and Philip Toomey who joined the Board as non-executive Directors in 2012.

Sean Bugler is a Director of Kerry Co-operative Creameries Ltd.

Joan Garahy is Managing Director of ClearView Investments & Pensions Ltd. She is a qualified Financial Advisor and Investment Specialist.

Michael Teahan is a Director of Kerry Co-operative Creameries Ltd and a Director of the Irish Co-operative Organisation Society Limited.

Philip Toomey was formerly a Global Chief Operating Officer at Accenture and has wide ranging international consulting experience. He is a fellow of the Institute of Chartered Accountants of Ireland and a member of the Board of United Drug plc.

### Prospects

Managements' views regarding business prospects for 2013 are outlined in the Chief Executive's Review. Building on the Group's performance record and strategic positioning, the Board is confident that Kerry can continue to capitalise on its growth opportunities and deliver sustained value for all stakeholders. The strength of the Group's balance sheet and strong cash flow will enable us to pursue such opportunities with confidence.

I would like to record the appreciation of the Board to Stan McCarthy Chief Executive, to management and all employees for their dedication to the continued successful growth and development of Kerry Group.

**Denis Buckley,**  
Chairman  
25 February 2013





# Chief Executive's Review



Stan McCarthy  
Chief Executive







Kerry Group achieved another year of solid growth in 2012. The global economic landscape again proved challenging, impacting consumer confidence in some developed markets. However Kerry maintained a strong operational and financial performance and made further progress in embedding our 1 Kerry strategies and global infrastructure to drive the future growth of the organisation. Significant resources were also deployed towards achievement of the Group's growth objectives in developing markets contributing double digit growth in Kerry's developing markets in 2012.

Group businesses maintained close management of input costs which, coupled with increased business efficiencies achieved through 1 Kerry Business Transformation Programmes, delivered good growth in continuing operations in all geographies. Performance was also assisted by successful integration of businesses acquired in 2011.

Group Ingredients & Flavours businesses continued to perform well – benefiting from creative and speedy innovation delivered through Technology and Innovation Centres providing access to Kerry's complete technology portfolio, culinary and nutritional expertise, supported by market-leading integrated applications and processing capability for global food, beverage and pharmaceutical markets.

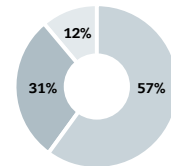
The Group's primary consumer foods' markets in Ireland and the UK remain highly competitive due to the adverse impact of economic conditions on consumer spending and the response of retailers through deeper and wider promotional activity. However Kerry Foods maintained a satisfactory overall business performance through product innovations and ongoing business efficiency improvements.

**Results**

Group sales on a reported basis increased by 10.3% to €5.8 billion, reflecting like-for-like (LFL) growth of 1.7% when account is taken of acquisitions net of disposals and currency translation. Continuing business volumes increased by 2.8% and pricing/mix increased by 0.1%.

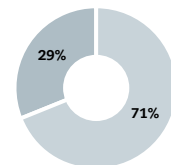
Volume growth and trading performance in ingredients & flavours' markets improved sequentially as the year progressed. Allowing for 0.7% volume loss due to business restructuring programmes to optimise the division's manufacturing footprint, continuing business volumes increased by 4%. Continuing business volumes in Kerry Foods increased by 0.6% allowing for 2.2% rationalisation volume loss as a result of restructuring of production across a number of consumer foods' sites.

Group trading profit increased by 10.8% to €555m reflecting 5% LFL growth. Excluding unallocated development costs relating to the Group's global IT ('Kerryconnect') project, the Group trading profit reflects 7.2% LFL growth. Good progress was achieved in advancing the Group's 1 Kerry Business Transformation Programme to optimise and align manufacturing to our global technology strategies.



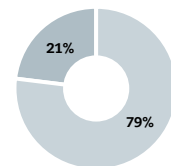
**Group Revenue by Destination**

EMEA	57%
Americas	31%
Asia Pacific	12%



**Revenue**

Ingredients & Flavours	71%
Consumer Foods	29%



**Trading Profit**

Ingredients & Flavours	79%
Consumer Foods	21%



This followed a review of the Group's manufacturing footprint - taking account of recent acquisitions, streamlining of existing manufacturing facilities and the disposal of non-core activities.

Ingredients & Flavours achieved 10 basis points margin improvement to 12%. Consumer Foods margin was back 20 basis points to 7.6%. Allowing for the increased level of expenditure relating to the Kerryconnect programme and the Group's 1 Kerry Business Transformation Programme, the Group trading profit margin increased by 10 basis points to 9.5% reflecting an underlying trading margin improvement of 60 basis points.

Adjusted profit before tax, brand related intangible asset amortisation and non-trading items increased by 10.6% to €497m. The income statement charge arising from integration of acquisitions, restructuring/reorganisation costs and loss on disposal of non-current assets/businesses amounted to €136m (net of tax) resulting in a net cash outflow of €43m after tax.

Adjusted profit after tax before brand related intangible asset amortisation and non-trading items increased 11.4% to €417m. Adjusted earnings per share increased 11.3% to 237.6 cent (2011 : 213.4 cent).

Investment in research and development increased to €186m (2011 : €167m). Net capital expenditure amounted to €156m (2011 : €162m). The Group achieved a free cash flow of €380m (2011 : €279m).

## Business reviews

### Ingredients & Flavours

The Group's Ingredients & Flavours businesses achieved a strong performance across all key technology platforms, end-use-markets and geographies – benefiting from our 1 Kerry strategic focus and the breadth and depth of Group technologies. Sales revenue grew by 14% on a reported basis to €4.2 billion reflecting 3.4% LFL growth. Continuing business volumes increased by 4% outperforming market growth rates. Rationalisation volume loss was 0.7% and pricing/mix increased by 0.1%. Trading profit grew by 15.1% to €506m with the division's trading margin improved by 10 basis points to 12%.

Ingredients & Flavours, with a well diversified and strong market position across all end-use-markets, accounted for 71% of Group revenue and 79% of Group trading profit in 2012. All technology clusters maintained solid growth. Revenue grew by 9.3% In Savoury & Dairy systems, 18.5% in Cereal & Sweet systems, 40.7% in Beverage systems and 11.5% in Pharma, Nutritional & Functional ingredients.

Revenue in the Americas region increased by 16% on a reported basis to €1,807m, reflecting 3.2% LFL growth. Continuing business volumes grew by 3.5%, allowing for 0.4% rationalisation volume loss due to the manufacturing footprint optimisation programmes and acquisition integration. Pricing/mix increased by 0.1%.



## Trading profit in Ingredients & Flavours grew by 15.1% to €506m with the division's trading margin improved by 10 basis points to 12%.

Reported sales revenue in the EMEA region increased by 9.5% to €1,614m, reflecting LFL growth of 0.5%. Continuing business volumes grew by 1.8% allowing for 1.4% rationalisation volume loss and a 0.1% pricing/mix increase.

Kerry's sales revenue in the Asia-Pacific region grew by 19.9% on a reported basis to €726m reflecting 9.5% LFL growth. Business volumes grew by 9.3% and pricing/mix increased by 0.2%.

### Consumer Foods

Consumer foods markets in Ireland and the UK remain challenged by the breadth and intensity of promotional activity and the difficulty in cost recovery following significant raw material inflation. Kerry Foods performed satisfactorily against this background due to continued innovation and investment in the division's key brands and ongoing business efficiency improvements. UK branded segments continued to perform well, as did Kerry's market leading dairy brands in Ireland. Performance in the Irish meat category was impacted by intense price and promotional activity through private label offerings in the multiple retail and discounter channels. However Kerry Foods saw some improvement in sausage, rasher and spreads brand shares in Ireland in the last quarter of the year. The 'direct-to-store' service to the independent retail trade in Ireland and the UK continues to be impacted by the level of promotional activity in the multiple retail sector.

Reported sales revenue increased by 2.3% to €1,712m, reflecting a decline of 1.5% LFL. Allowing for 2.2% rationalisation volume loss on restructuring of production across a number of Kerry Foods' sites, continuing business volumes increased by 0.6%.

Pricing/mix increased by 0.1% reflecting a lag in raw material cost recovery. Trading profit reported at €130m was unchanged from the prior year level. The divisional trading margin reduced by 20 basis points to 7.6%.

### Finance

Finance costs (net) for the year increased by €3.2m to €49.2m (2011 : €46.0m) as interest costs arising from business acquisitions and capital expenditure outweighed the interest benefit from higher cash flows and lower interest rates. The Group's average interest rate for the year was 3.5% a decrease of 50 basis points from the prior year (2011 : 4.0%).

The tax charge for the year, before non-trading items, was €79.6m (2011 : €74.6m) representing an effective tax rate of 16.5% (2011 : 17.1%). The decrease in the effective tax rate, which excludes the impact of non-trading items, was primarily driven by the geographical mix of profits.

In 2012 the Group achieved a free cash flow of €379.5m (2011 : €278.8m), having spent €156m on non-current assets, €6.2m on working capital, €25.2m on net pension plan, €48.6m on finance costs and €53.5m on tax. Over the 5 year period from 2008 to 2012 the Group has generated in excess of €1.5 billion free cash flow.

Net debt at the end of the year was €1,210.8m (2011 : €1,287.7m). The Group's balance sheet is in a good position and with a net debt to EBITDA\* ratio of 1.8 times the organisation has sufficient headroom to support its future growth plans. Shareholders' equity increased by €171.9m to €2,017.2m (2011 : €1,845.3m) as profits generated exceeded the negative impact of actuarial losses on defined benefit schemes.



Brian Mehigan  
Chief Financial Officer



Gerry Behan  
President & CEO  
Kerry Ingredients & Flavours



Flor Healy  
CEO Kerry Foods



The Company's shares traded in the range €27.45 to €41.45 during the year. The share price at 31 December was €40.06 (2011 : €28.28) giving a market capitalisation of €7.0 billion (2011: €5.0 billion). Total Shareholder Return for 2012 was 43% and for the last 5 years was 95% (representing a compound annual growth rate of 14%).

#### Post balance sheet events

Since year-end the Group has reached agreement to acquire Cape Town, South Africa based Orley Foods – a leading manufacturer and supplier of sweet ingredient solutions to food manufacturers and foodservice providers in South Africa. Orley Foods has well established customer relationships with leading global and regional food processors – providing a range of chocolate coatings and compounds, fruit & sweet systems and nuggets, syrups and sweet sauce systems. The business being acquired complements Kerry's existing Ingredients & Flavours business in the region, following the Group's recent acquisitions of FlavourCraft and Cargill's flavours business, providing a significant platform to meet customer requirements and Kerry's growth strategy in Sub Saharan Africa. The transaction has already achieved regulatory approval and is scheduled to be completed in March 2013.

#### Future prospects

We look forward to another year of progress in 2013. The opportunities for our technologies, applications, culinary expertise and processing capabilities augur well for the future growth of Group businesses. Our investment in strategically located, industry-leading Kerry Global Technology & Innovation Centres will provide access to the Group's entire technological base and expertise – further strengthening our strategic customer alliances. We are firmly focused on expanding our footprint throughout regional developing markets.

In our consumer foods business, we will continue to invest in product innovation and quality and in optimising operational efficiencies to ensure continued profitable growth.

Our 1 Kerry Business Transformation Programme is well underway across all operations and functional workstreams to leverage the Group's global expertise - optimising manufacturing scale and efficiency benefits.

The Group expects to achieve 7% to 11% growth in adjusted earnings per share in 2013.



Stan McCarthy,  
Chief Executive  
25 February 2013

# Ingredients & Flavours



Kerry Ingredients & Flavours develops, manufactures and delivers innovative taste solutions and nutritional and functional ingredients for food, beverage and pharmaceutical markets.



The Group's Ingredients & Flavours businesses achieved a strong performance across all key technology platforms, end-use-markets and geographies – benefiting from our 1 Kerry strategic focus and the breadth and depth of Group technologies. Sales revenue grew by 14% on a reported basis to €4.2 billion reflecting 3.4% LFL growth. Continuing business volumes increased by 4% outperforming market growth rates. Rationalisation volume loss was 0.7% and pricing/mix increased by 0.1%. Trading profit grew by 15.1% to €506m with the division's trading margin improved by 10 basis points to 12%.

Ingredients & Flavours, with a well diversified and strong market position across all end-use-markets, accounted for 71% of Group revenue and 79% of Group trading profit in 2012.

Good growth was achieved through key accounts across developed and developing markets. Despite challenging market conditions in some consumer food and beverage categories, in particular in relatively mature developed market sectors, demand for new product development remained strong – driven by consumer health and wellness trends towards 'clean label', high fibre, 'heart healthy', reduced calorie, enhanced nutritional and dietary products – in addition to ongoing demand for convenient delivery systems, hand-held or snackable products, cost effective solutions and affordable indulgence. Kerry continued to invest in its technology, research, development & applications expertise and facilities to capitalise on the Group's technology layering potential and industry leading processing capabilities. All technology clusters

maintained solid growth in 2012. Revenue grew by 9.3% in Savoury & Dairy systems, 18.5% in Cereal & Sweet systems, 40.7% in Beverage systems and 11.5% in Pharma, Nutritional & Functional ingredients.

### Americas Region

Kerry again grew solidly in North American markets with good growth across major food & beverage accounts and foodservice providers. Encouraging market development and expansion was also achieved in Latin America. Revenue in the Americas region increased by 16% on a reported basis to €1,807m, reflecting 3.2% LFL growth. Continuing business volumes grew by 3.5%, allowing for 0.4% rationalisation volume loss due to the manufacturing footprint optimisation programmes and acquisition integration. Business performance benefited from the successful integration of 2011 acquisitions, in particular Cargill's flavours business, and the ongoing 1 Kerry Business Transformation Programme. Pricing/mix increased by 0.1%.

Savoury, Dairy & Culinary systems performed well outperforming sluggish growth in some industry categories. Good growth was achieved in the meat and poultry sector with strong innovation in response to health and wellness, 'clean-label' and gluten-free trends. Performance also benefited from increased integration of Kerry's flavour expertise in wider applications. Dairy systems saw continued growth through frozen yoghurt applications. Culinary sauces grew strongly through retail and foodservice channels. Savoury & Dairy snack seasonings continued to grow through key regional accounts. As previously reported, Indianapolis (IN) based Millennium Foods was acquired

#### Revenue

2012	€4,225m
Growth	14%

#### Trading Profit

2012	€506m
Growth	15.1%

#### Trading Margin

2012	12%
Growth	+10bps

## Ingredients & Flavours, with a well diversified and strong market position across all end-use-markets, accounted for 71% of Group revenue and 79% of Group trading profit in 2012.



in August adding to Kerry's technology expertise serving dairy, culinary and prepared meals end-use-markets. Griffith do Brasil, a specialist manufacturer of meat systems, flavours and texturant systems was also acquired – extending the Group's capability to serve added value growth segments of the Brazilian meat industry.

Cereal & Sweet systems and flavours performed well despite industry sectoral issues. Kerry delivered strong innovation to key retail and foodservice providers in the ice cream and frozen desserts sector. Our integrated solutions approach in the bakery sector continues to record good results. Snackable opportunities provided solid growth in the confectionery sector. Despite the market difficulties in the ready-to-eat cereals sector, Kerry continued to achieve good growth by leveraging its technology and processing expertise. The cereal bar segment saw continued growth driven by health and wellness trends. Latin American cereal markets continue to experience good growth through premium offerings providing significant opportunity for the Group's recently acquired manufacturing facility in Argentina.

Beverage systems & flavours delivered good growth through new product launches via major customer accounts leveraging Kerry's ingredients, flavours and packaging/processing capability assisted by industry leading innovation through the Group's Technology and Innovation Centres in the region. Performance was also boosted by the integration of Cargill's flavours business acquired prior to year-end 2011. North American markets saw good growth across nutritional beverages, tea & coffee applications and through beverage syrups with key customers in the foodservice and café segments. In Latin American markets Kerry achieved strong growth in taste solutions into soft drinks, new launches into the energy drinks sector and through hot and cold beverage applications for the foodservice channel.

Prior to year-end, the Group acquired Lake Forest, California based Big Train – a major global foodservice, branded speciality beverage provider including cappuccino mixes, protein mixes, smoothies and flavoured syrups, strengthening Kerry's speciality beverage market positioning, international branded portfolio and manufacturing capability.

Pharma ingredients, which develops excipient and cell nutritional products for pharmaceutical, nutritional and bio-technology applications, again advanced its global market positioning. The Group's new coatings production facility in India was commissioned and a development & applications facility was also established to service the Group's rapidly expanding customer base in the region. Kerry's anhydrous DT lactose also won a major new listing with a leading global pharmaceutical account.

### EMEA Region

In EMEA markets Kerry Ingredients & Flavours achieved a satisfactory broad based business performance despite the challenging economic landscape. Performance was assisted by a strong focus on business efficiencies, cost management and successful integration of businesses acquired in 2011. Reported sales revenue increased by 9.5% to €1,614m, reflecting LFL growth of 0.5%. Continuing business volumes grew by 1.8% allowing for 1.4% rationalisation volume loss and a 0.1% pricing/mix increase. Ongoing implementation of the Group's 1 Kerry strategies and customer focused approach provided a strong pipeline for innovation allowing the division to outperform market growth rates. In particular good progress was achieved in regional developing markets.

Savoury, Dairy & Culinary systems maintained a satisfactory growth momentum despite the challenging trading environment. Strong innovation was achieved in convenience sectors due to customer demand for consumer preferred taste solutions and enhanced







nutritional benefits. In the meat sector, Kerry's coatings technologies recorded good growth through major customer accounts. A novel reduced fat Slendercoat™ coating system was successfully introduced to the market. Encouraging market development was recorded in Russia and in the MENAT developing market region (Middle East, North Africa & Turkey). Progress in EMEA developing markets was also assisted by the South Africa based FlavourCraft business acquired prior to year-end 2011. Integration of FlavourCraft has delivered good growth and reinforced the Group's commitment to global and regional customers in EMEA developing markets.

Cereal & Sweet systems and flavours performed well. Good growth was achieved in the dairy sector and in the cereal bar category. Technology developments included introduction of low-water activity fillings and textured sauces. Notwithstanding the weather-related poor ice cream season, a strong performance was achieved in the European ice cream sector through applications in a number of successful product launches. Bitesize confectionery offerings incorporating Kerry technologies also proved successful. Performance in the RTE cereals sector again proved challenging due to industry trends but cereal technologies continued to achieve good growth in dairy market applications. The SuCrest sweet ingredients & flavours business acquired in October 2011 was successfully integrated and performed in line with expectations.

Beverage systems & flavours benefited from Kerry's expanded product portfolio and technical capabilities following the acquisition of Cargill's flavours business in December 2011. Integration of the acquisition continues to be progressed, assisting growth momentum in the challenging European beverages sector. Market development continues to be achieved through cost effective beverage solutions and 'fmt' flavour technology. Kerry has successfully partnered with leading brewers serving African markets by providing innovative enzyme systems which allow for utilisation of locally grown grain in the brewing process.

Functional ingredients maintained solid growth benefiting from embedding technologies through Kerry's integrated solutions approach. New texture and lipid systems were successfully launched through yoghurt, ice cream, dairy beverage and savoury sauce applications.

Primary Dairy markets progressively improved through Q3 and Q4 relative to weak international market conditions in the first half of the year.

In October the Group announced the establishment of a Kerry Global Technology & Innovation Centre in Ireland to serve our global and regional customers in the EMEA region. Kerry will invest €100m in the new EMEA Centre which will provide strategic customers with access to our complete breadth and depth of technologies and will be a focal point for all scientific research, technology and product development and innovation. The Global Technology and Innovation Centre in the EMEA Region will be supported by four strategically located Regional Development and Applications Centres; in Bornem (Belgium), Mozzo (Italy), Durban (South Africa) and Dubai (UAE).





Strong innovation was achieved in convenience sectors due to customer demand for consumer preferred taste solutions and enhanced nutritional benefits.

**Kerry's sales revenue in the Asia-Pacific region grew by 19.9% on a reported basis to €726m reflecting 9.5% LFL growth. Business volumes grew by 9.3% and pricing/mix increased by 0.2%.**

#### Asia-Pacific Region

Kerry continued to achieve excellent growth in Asia-Pacific markets in 2012. While consumer spend in the region's developed markets was more constrained; the pace of urbanisation coupled with GDP and food expenditure growth in Asia-Pacific developing markets continued to provide a solid platform for growth. Kerry's sales revenue in the region grew by 19.9% on a reported basis to €726m reflecting 9.5% LFL growth. Business volumes grew by 9.3% and pricing/mix increased by 0.2%.

Savoury, Dairy & Culinary systems maintained solid growth momentum. Demand for dairy taste solutions continues to increase in particular in the Philippines, Indonesia and China. Nutritional solutions grew across the region with double digit growth recorded in lipid nutritional applications in China. Dairy systems continue to perform strongly in the snack and bakery end-use markets, and in foodservice applications. Culinary systems also grew well in snack applications across South East Asia and in Australasia. Meat technologies performed well throughout the region, with significant product launches in QSR markets and continued strong growth in the poultry sector. In Australia, Kerry achieved good growth through coating systems and solid volume growth was also maintained in New Zealand. Development in the meat and culinary sectors was strengthened through the acquisition of Angsana Food Industries completed in Malaysia in June and in China in September.

Sweet technologies again advanced considerably with continued growth in bakery applications particularly in Thailand, China and the Philippines. Kerry Pinnacle recorded good growth through both retail and QSR channels in Australia. New launches boosted category leadership through major national retail accounts and success was also achieved through increased consumer demand for 'clean label' bakery technologies.

Beverage technologies grew strongly across the region. Continued innovation through speciality beverage offerings provided strong results in key QSR accounts. Da Vinci branded syrups recorded excellent growth throughout Asia with high double digit growth in China in 2012. Kerry's Café D'Amore brand was also successfully launched into Kerry's suite of premium beverage offerings to foodservice providers in the region. In 2012, a beverage syrups production line was also commissioned at the Group's Johor Bahru facility in Malaysia. Cargill's flavours business acquired in December 2011 provided a significant boost through new product launches and broader beverage applications throughout Asian markets. The acquisition of Australia based Food Spectrum Group Pty Ltd in July 2012 also significantly expanded Kerry's specialist aseptic processing/packaging capability in the Asia-Pacific region and also assisted technical development in the added value dairy, nutritional and infant food/beverage categories.

Functional ingredients continued to outperform market growth rates in the region due to wider integration with Kerry's total technology offering. Emulsifiers and texturants achieved strong growth in dairy and ice cream applications, and in the meat and tea & coffee market sectors.





Meat technologies performed well throughout the region, with significant product launches in QSR markets and continued strong growth in the poultry sector.



# Consumer Foods

**Kerry Foods is a leading manufacturer and marketer of added value branded and customer branded chilled foods to the UK and Irish consumer foods markets.**

Consumer foods markets in Ireland and the UK remain challenged by the breadth and intensity of promotional activity and the difficulty in cost recovery following significant raw material inflation. Kerry Foods performed satisfactorily against this background due to continued innovation and investment in the division's key brands and ongoing business efficiency improvements. UK branded segments continued to perform well, as did Kerry's market leading dairy brands in Ireland. Performance in the Irish meat category was impacted by intense price and promotional activity through private label offerings in the multiple retail and discounter channels. However Kerry Foods saw some improvement in sausage, rasher and spreads brand

shares in Ireland in the last quarter of the year. The 'direct-to-store' service to the independent retail trade in Ireland and the UK continues to be impacted by the level of promotional activity in the multiple retail sector.

Reported sales revenue increased by 2.3% to €1,712m, reflecting a decline of 1.5% LFL. Allowing for 2.2% rationalisation volume loss on restructuring of production across a number of Kerry Foods' sites, continuing business volumes increased by 0.6%. Pricing/mix increased by 0.1% reflecting a lag in raw material cost recovery. Trading profit reported at €130m was unchanged from the prior year level. The divisional trading margin reduced by 20 basis points to 7.6%.



Revenue	
2012	€1,712m
Growth	2.3%
Trading Profit	
2012	€130m
Growth	0.1%
Trading Margin	
2012	7.6%
Growth	-20bps

UK Brands continued to perform well. Richmond achieved good volume and brand value growth in both the fresh and frozen sausage categories, attracting new consumers to the market leading brand. In the prepackaged sliced cooked meats sector, the Richmond all-natural ham range was successfully launched mid-year and received a favourable consumer response – as the first 100% natural ingredient ham on the UK market, significantly improving the nutritional profile of the product. Wall's again grew market share in the savoury pastry sector and in the sausage roll category, but lost brand share in the fresh sausage market. The meat snacking category continued to record good growth with Mattessons Fridge Raiders delivering double digit growth.

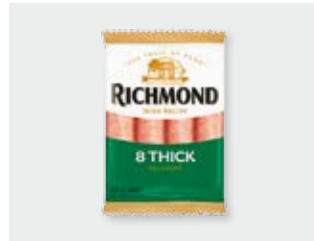
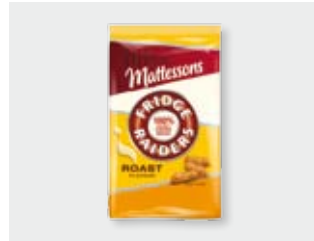
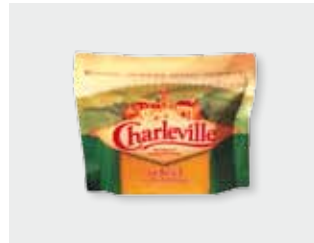
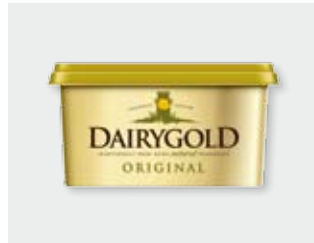
LowLow successfully repositioned its market focus to the cheese spreads and slices market segments – promoting the brand's taste and health values. Cheestrings brand share in the cheese snacking sector was down slightly due to heavy promotion in the category. With a renaissance in home baking in the UK market, Homepride Flour achieved double digit growth year-on-year. Green's baking mixes also achieved good growth in the UK market and through Green's Carmelle, dry cake and dessert mixes in export markets.

In Kerry Foods' UK Customer Brands categories performance was mixed. Good growth was again recorded in the chilled ready meals and ready-to-cook categories, and in dairy spreads. Performance in the









chilled ready meals sector benefited from successful launches in the premium sector delivering quality fresh ingredients and new recipes in the oriental and Indian segments. In the frozen meals category, Kerry Foods restructured its manufacturing base, consolidating production at the Carrickmacross site in Ireland. Due to continuing competitive pressures in the cooked meats sector, the division's Durham facility was also closed – with production transferring to the Spalding and Attleborough facilities in the UK and the Shillelagh plant in Ireland.

As reported at the half-year stage, conditions in the Irish consumer foods market remained challenging in 2012 but Kerry Foods stabilised the performance of its Brands Ireland business. Denny brought significant innovation to the sliced meats market with the launch of Ireland's first 100% Natural Ingredients Denny Deli Style ham. In the sausage sector Denny Gold Medal Sausage was re-launched with a new improved recipe.

The Galtee range of pork products achieved good growth year-on-year.

Kerry Foods' brands continued to perform well in the Irish dairy products market. Dairygold maintained its brand leadership supported by its successful 'Butter it with Dairygold' marketing campaign. In September

'Dairygold Baking Block' was successfully introduced in response to the growth in home-baking. LowLow and Charleville performed satisfactorily in the spreads and cheese categories. Ficello maintained good progress in France – assisted by the launch of 'Ficello Spaghetti' in May. Cheestrings continued to achieve strong development in the German market.

Recognising the challenging market conditions in the Irish meat category and the difficult trading situation impacting the direct-to-store service to the independent retail sector in the UK and Ireland, Kerry Foods will adjust its business model to focus on its core offerings in these sectors.



# Financial Review

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2012 and of the Group's financial position at that date. In addition the following measures, which are considered key indicators of the Group's underlying performance, are also discussed:

## Growth

- Adjusted\* earnings per share (EPS) growth
- Continuing volume growth
- Trading profit margin

## Return

- Return on average equity (ROAE\*)
- Return on average capital employed (ROACE\*)
- Cashflow return on investment (CFROI)

## ANALYSIS OF RESULTS

	% change	2012 €'m	2011 €'m
<b>Reconciliation of adjusted* earnings to profit after taxation</b>			
Revenue	+10.3%	5,848.3	5,302.2
<b>Trading profit</b>	+10.8%	554.7	500.5
<i>Trading margin</i>		9.5%	9.4%
Computer software amortisation		(8.7)	(5.4)
Finance costs (net)		(49.2)	(46.0)
<b>Adjusted* earnings before taxation</b>	10.6%	496.8	449.1
Income taxes (excluding non-trading items)		(79.6)	(74.6)
<b>Adjusted* earnings after taxation</b>	11.4%	417.2	374.5
Brand related intangible asset amortisation		(14.7)	(13.9)
Non-trading items (net of related tax)		(135.5)	0.1
<b>Profit after taxation</b>	(26.0%)	267.0	360.7
		EPS Cent	EPS Cent
<b>Adjusted* EPS</b>	11.3%	237.6	213.4
Brand related intangible asset amortisation		(8.4)	(7.9)
Non-trading items (net of related tax)		(77.2)	-
<b>Basic EPS</b>	(26.0%)	152.0	205.5

\* Before brand related intangible asset amortisation and non-trading items (net of related tax)  
(LFL) like-for-like growth excludes the impact of acquisitions, disposals and foreign exchange translation.

## Revenue

Group revenue increased by **10.3%** to **€5.8 billion**. After allowing for the impact of business acquisitions net of disposals of **3.7%** and reporting currency of **4.9%**, like-for-like (LFL) revenue increased by **1.7%**. Continuing volumes, which increased each quarter throughout the year, grew by **2.8%** while product pricing/mix increased by **0.1%**. Rationalisation volumes, due to restructuring of production across the Group's manufacturing sites, amounted to **1.2%** for the year.

Reported revenue in Ingredients & Flavours increased by **14.0%** while LFL revenue growth was **3.4%** (2011: 7.7%) driven by continuing volume growth of **4.0%** and net pricing of **0.1%** which were partially offset by rationalisation volumes of **0.7%**.

In Consumer Foods reported revenue increased by **2.3%**. Continuing volumes grew by **0.6%** and net pricing increased by **0.1%** while rationalisation volumes were **2.2%** resulting in LFL revenue declining by **1.5%**.

Reported revenue growth by destination was **16.0%** (2011: 5.3%) in the Americas, **5.6%** in EMEA (2011: 5.6%) and **19.9%** in Asia Pacific (2011: 19.0%) while LFL growth in each region was **3.2%** in the Americas (2011: 7.1%), **(0.6%)** in EMEA (2011: 5.1%) and **9.5%** in Asia Pacific (2011: 12.0%). Sales to developing markets represent **23%** (2011: 21%) of Ingredients & Flavours revenue.

### Revenue Growth - 2012

10.3%

### Trading Profit Growth - 2012

10.8%

### Adjusted\* EPS Growth - 2012

11.3%

## Trading Profit

On a reported basis Group trading profit increased by **10.8%** to **€554.7m**. This equates to LFL growth of **7.2%** after allowing for incremental expenditure of **€11.0m** on the Kerryconnect programme, the positive impact of reporting currency of **4.2%** and the contribution from business acquisitions net of disposals of **1.6%**.

Total costs recorded in the Income Statement during the year on the Kerryconnect project were **€46.0m** (2011: €35.0m) with **€36.0m** recorded centrally (2011: €26.0m) and **€10.0m** recorded at divisional level (2011: €9.0m).

## Trading Profit Margin

Group trading profit margin increased 10 basis points (bps) to **9.5%** (2011: 9.4%). On an underlying basis trading margin increased 60bps driven by operational leverage and business efficiency programmes, however this was offset by the incremental expenditure on Kerryconnect (-20bps), the dilutive impact of acquisitions/disposals (-20bps) and the impact of cost recovery pricing (-10bps) resulting in a net increase of 10bps on a reported basis.

Trading profit margin in Ingredients & Flavours increased by 10bps to **12.0%** (2011: 11.9%) as the benefits of operating leverage and business efficiency programmes outweighed the dilutive impact of acquisitions. Trading profit margin in Consumer Foods decreased by 20bps to **7.6%** (2011: 7.8%) as business efficiency gains were not enough to offset difficulties in cost recovery pricing and the impact of the challenging economic environment in Ireland and the UK.

A comprehensive analysis of the revenue and trading profit performance of the Ingredients & Flavours and Consumer Foods divisions is included in the Business Review on pages 14 to 25.

## Finance Costs (net)

Finance costs (net) for the year increased by €3.2m to **€49.2m** (2011: €46.0m) as interest costs arising from business acquisitions and capital expenditure outweighed the interest benefit from higher cash flows and lower interest rates. The Group's average interest rate for the year was **3.5%** a decrease of 50 basis points from the prior year (2011: 4.0%).

## Taxation

The tax charge for the year, before non-trading items, was **€79.6m** (2011: €74.6m) representing an effective tax rate of **16.5%** (2011: 17.1%). The decrease in the effective tax rate, which excludes the impact of non-trading items, was primarily driven by the geographical mix of profits.

### Adjusted EPS

Adjusted EPS increased by 11.3% to 237.6 cent (2011: 213.4 cent). Basic EPS decreased by 26.0% from 205.5 cent to 152.0 cent as a result of the impact of non-trading items.

### Loss on Disposal of Businesses / Non-Current Assets

The Group disposed of a number of non-core businesses along with some property, plant and equipment during the year. A loss of €35.7m (net of tax) was recorded on these disposals while the net cash inflow was €7.4m.

### Exchange Rates

Group results are impacted by fluctuations in exchange rates versus the euro, in particular movements in US dollar and sterling exchange rates. The average and closing rates for US dollar and sterling used to translate reported results are detailed below:

	Average Rates		Closing Rates	
	2012	2011	2012	2011
USD	1.28	1.40	1.32	1.29
STG	0.81	0.87	0.82	0.84

### Dividends

The Board has proposed a final dividend of 25.0 cent per A ordinary share payable on 10 May 2013 to shareholders registered on the record date 12 April 2013. When combined with the interim dividend of 10.8 cent per share, the total dividend for the year amounted to 35.8 cent per share (2011: 32.2 cent per share) an increase of 11.2%.

### KEY PERFORMANCE INDICATORS

The metrics outlined below have been identified as the Key Performance Indicators (KPIs) for the Group. These KPIs are used to measure the financial and operational performance of the Group and are used to track progress in achieving long term targets.

KPIs for the year and average performance for the five year cycle from 2008 to 2012 are discussed below:

Key Performance Indicators	Target	5 Yr Average (2008–2012)	2012	2011
<b>Growth</b>				
Adjusted* EPS growth	10%+	10.8%	11.3%	11.1%
Continuing volume growth	2% to 4%	3.4%	2.8%	3.3%
Trading profit margin	10% (2008: 8.5%)	9.5%	9.5%	9.4%
<b>Return</b>				
Return on average equity (ROAE*)	15%+	16.5%	17.0%	16.5%
Return on average capital employed (ROACE*)	12%+	12.3%	12.6%	12.1%
Cash flow return on investment (CFROI)	12%+	11.6%	11.5%	9.4%

\* Before brand related intangible asset amortisation and non-trading items (net of related tax)



**Adjusted\* EPS growth** was 11.3% for the year while the compound annual growth rate from 2008 to 2012 was 10.8% (above the long term target of 10%+ p.a). The year on year increase in adjusted EPS from 213.4 cent to 237.6 cent was primarily attributable to higher trading profits which were partially offset by an increase in finance costs and income taxes.

**Continuing volume growth** in 2012 was 2.8% (2011: 3.3%) driven by 4.0% (2011: 4.0%) in Ingredients & Flavours and 0.6% (2011: 1.1%) in Consumer Foods. For the five years ended 2012 continuing volume growth was 3.4% on average (within the target range of 2% to 4%).

**Trading profit margin** increased by 10bps to 9.5% (2011: 9.4%). Over the five years from 2008 to 2012 Group trading margin increased by 100bps from 8.5% to 9.5%. This performance includes costs incurred in relation to the Kerryconnect project which if excluded would have resulted in a trading margin of 10.3% (above the Group's long term target of 10.0%).

**Return on investment** is measured by the Group on a profit basis using ROAE and ROACE and on a cash basis using CFROI. For 2012 the Group achieved ROAE of 17.0% (2011: 16.5%) and ROACE of 12.6% (2011: 12.1%) while CFROI was 11.5% (2011: 9.4%). The five year average for CFROI would have been above target if the costs incurred in relation to the Kerryconnect project were excluded.

**Free cash flow** is seen as an important indicator of the strength and quality of the business and of the availability to the Group of funds for reinvestment or for return to the shareholder. In 2012 the Group achieved a free cash flow of €379.5m (2011: €278.8m) analysed below:

	2012 €'m	2011 €'m
<b>Free Cash Flow</b>		
Trading profit	554.7	500.5
Depreciation (net)	114.3	100.8
Change in working capital	(6.2)	(3.8)
Pension contributions paid less pension expense	(25.2)	(34.0)
Finance costs paid (net)	(48.6)	(46.6)
Income taxes paid	(53.5)	(75.9)
Free cash flow before capital expenditure	535.5	441.0
Net investment in non-current assets	(156.0)	(162.2)
<b>Free cash flow</b>	<b>379.5</b>	<b>278.8</b>

Over the five year period from 2008 to 2012 the Group has generated in excess of €1.5 billion free cash flow.

## BALANCE SHEET

A summary balance sheet at 31 December is provided below:

	2012 €'m	2011 €'m
Intangible assets	2,459.9	2,294.6
Property, plant & equipment	1,205.6	1,208.7
Other non-current assets	114.9	113.5
Current assets	1,569.3	1,613.2
<b>Total assets</b>	<b>5,349.7</b>	<b>5,230.0</b>
Current liabilities	1,441.6	1,246.0
Non-current liabilities	1,890.9	2,138.7
<b>Total liabilities</b>	<b>3,332.5</b>	<b>3,384.7</b>
<b>Net Assets</b>	<b>2,017.2</b>	<b>1,845.3</b>
Shareholders' equity	2,017.2	1,845.3

### Intangible Assets & Acquisitions

Intangible assets increased by €165.3m to **€2,459.9m** (2011: €2,294.6m) primarily as a result of acquisitions completed during the year. These acquisitions (six in total at a cost of **€177.3m**), which were completed by the Group's Ingredients & Flavours division, strengthen the Group's capabilities across a range of technologies and expand Kerry's footprint in developing regions.

Acquisition	Technology	Geography
Angsana Food Industries	Savoury & Dairy / Cereal & Sweet	Malaysia
Shanghai Angsana Food Company	Savoury & Dairy / Cereal & Sweet	China
Food Spectrum Group Pty Limited	Beverage	Australia
Griffith do Brasil	Savoury & Dairy	Brazil
Millennium Foods, LLC.	Savoury & Dairy	USA
Big Train Industries, Inc.	Beverage	USA

During the year the Group incurred **€58.9m** of acquisition integration costs (net of tax) relating to current and prior year acquisitions (primarily Cargill's flavours business). These expenses represent costs associated with factory closures, relocation of resources and the streamlining of operations in order to integrate the businesses into Kerry's existing business model. The cash outflow associated with these activities (after tax) was **€29.8m**.

Costs were also incurred during the year relating to the Group's footprint and supply chain restructuring programme. Total costs amounted to **€40.9m** (net of tax) while the net cash outflow was **€20.4m**.

Further details on non-trading items are available in note 5 to the consolidated financial statements while additional details on the businesses acquired during the year are available in note 30 and in the Business Review.

### Retirement Benefits

At the balance sheet date, the net deficit for defined benefit schemes (after deferred tax) was **€245.5m** (2011: €212.5m). The increase year-on-year represents higher schemes' liabilities driven primarily by lower discount rates the impact of which was partially offset by an increase in the market value of pension schemes' assets. The net deficit expressed as a percentage of market capitalisation at 31 December was **3.5%** (2011: 4.3%). The charge to the income statement during the year, for both defined benefit and defined contribution schemes was **€42.2m** (2011: €34.8m).

The Group will account for retirement benefits in accordance with the revised IAS 19 from 1 January 2013. The impact of adopting the revised standard reduces 2012 profit after taxation by €6.3m. This equates to a decrease in 2012 adjusted EPS of approximately 3.6 cent (approximately 2%). From 1 January 2013 (with comparatives restated) the Group will report the net interest cost associated with defined benefit schemes in finance costs (previously in staff costs).

### Shareholders' Equity

Shareholders' equity increased by €171.9m to **€2,017.2m** (2011: €1,845.3m) as profits generated during the year were partially offset by dividends and the negative impact of actuarial losses on defined benefit schemes.

A full reconciliation of shareholders' equity is disclosed in the Consolidated Statement of Changes in Equity on page 78.



## Free Cash Flow - 2012

€379.5m

## Net Debt EBITDA\*\* - 2012

1.8 times

## ROACE\* - 2012

12.6%

## CAPITAL STRUCTURE

The Group finances its operations through a combination of equity and borrowing facilities, including bank borrowings and senior notes from capital markets.

The financing structure of the Group is managed in order to optimise shareholder value while allowing the Group to take advantage of opportunities that might arise to grow the business. The Group targets acquisition and investment opportunities that are value enhancing and the Group's policy is to fund these transactions from cash flow or borrowings while maintaining its investment grade debt status.

This is managed by setting net debt to EBITDA targets while allowing flexibility to accommodate significant acquisition opportunities. Any expected variation from these targets should be reversible within twelve to eighteen months; otherwise consideration would be given to issuing additional equity in the Group.

### Net Debt

Net debt at the end of the year was €1,210.8m (2011: €1,287.7m). The decrease during the year is analysed in the table below:

	2012 €'m	2011 €'m
<b>Movement in Net Debt</b>		
<b>Free cash flow</b>	379.5	278.8
Acquisitions (net of disposals) including payments relating to previous acquisitions	(181.8)	(359.2)
Expenditure on acquisition integration costs	(40.5)	(13.9)
Expenditure on restructuring programme	(30.1)	-
Equity dividends paid	(58.3)	(52.4)
Exchange translation adjustment on profits	(1.8)	(2.8)
Decrease/(increase) in net debt resulting from cash flows	67.0	(149.5)
Fair value movement on interest rate swaps	(1.4)	(4.6)
Exchange translation adjustment on net debt	11.3	(21.7)
Decrease/(increase) in net debt in the year	76.9	(175.8)
Net debt at beginning of year	(1,287.7)	(1,111.9)
<b>Net debt at end of year</b>	<b>(1,210.8)</b>	<b>(1,287.7)</b>

### Exchange Impact on Net Debt

The exchange translation adjustment of €11.3m results primarily from borrowings denominated in US dollar translated at a year end rate of \$1.32 (2011: \$1.29).

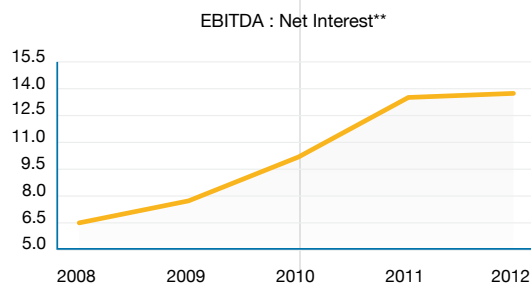
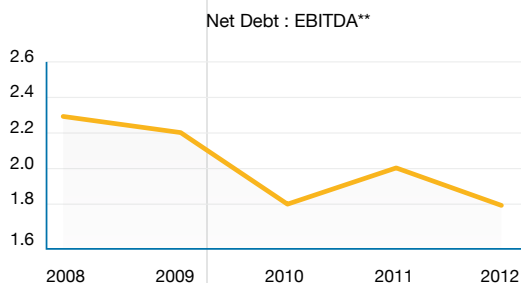
### Maturity Profile of Net Debt

	2012 €'m	2011 €'m
Within 1 year	2.4	198.9
Between 1 and 2 years	(3.0)	(179.0)
Between 2 and 5 years	(935.9)	(893.5)
Over 5 years	(274.3)	(414.1)
<b>Net debt at end of year</b>	<b>(1,210.8)</b>	<b>(1,287.7)</b>
Weighted average maturity (years)	3.8	4.9

## Key Financial Covenants

The majority of Group borrowings are subject to financial covenants calculated in accordance with lenders' facility agreements. Group Treasury monitors compliance with all financial covenants and at 31 December the key covenants were as follows:

	Covenant	2012 Times	2011 Times
Net debt: EBITDA**	Maximum 3.5	1.8	2.0
EBITDA: Net interest**	Minimum 4.75	13.8	13.5



\*\*Calculated in accordance with lenders' facility agreements.

## Credit Facilities

Undrawn committed facilities at the end of the year were €449.0m (2011: €355.0m) while undrawn standby facilities were €292.0m (2011: €205.0m).

Full details of the Group's financial liabilities, cash and cash equivalents and credit facilities are disclosed in notes 22 and 23 to the consolidated financial statements.

## Share Price and Market Capitalisation

The Company's shares traded in the range €27.45 to €41.45 during the year. The share price at 31 December was €40.06 (2011: €28.28) giving a market capitalisation of €7.0 billion (2011: €5.0 billion). Total Shareholder Return for 2012 was 43% and for the last 5 years was 95% (representing a compound annual growth rate of 14%).

## Investor Relations

Kerry's senior management team are committed to interacting with the international financial community to ensure a full understanding of Kerry's strategic plan, long term targets and current trading performance. During the year members of the executive management team presented at 25 capital market conferences and met over 500 institutional investors at conferences, one-on-one meetings and group presentations.

## FINANCIAL RISK MANAGEMENT

The Group has a clearly defined Financial Risk Management Programme, which is approved by the Board of Directors and is subject to regular monitoring by the Finance Committee and the Group Internal Auditors. The Group operates a centralised treasury function, which manages the principal financial risks of the Group. The Group does not engage in speculative trading. Further details relating to the Group's financial risks and its Financial Risk Management Programme are disclosed in note 23 to the consolidated financial statements and in the Report of the Directors.

## SUMMARY AND FINANCIAL OUTLOOK

Despite challenging consumer, trading and financial conditions the Group delivered another strong performance in 2012 generating revenue of €5.8 billion, trading profit of €554.7m and free cash flow of €379.5m. At year end the balance sheet is also in a good position and with a net debt: EBITDA ratio of 1.8 times, the Group has sufficient headroom to support the future growth plans of the organisation.

Despite challenging market conditions continuing to prevail going into 2013, the Group looks forward to further financial growth and development in the year ahead.



# Kerry Group - 10 Year Earnings History

	2003 €'m	2004 €'m	2005 €'m	2006 €'m	2007 €'m	2008 €'m	2009 €'m	2010 €'m	2011 €'m	2012 €'m
<b>Revenue</b>	3,693.4	4,128.7	4,429.8	4,645.9	4,787.8	4,790.8	4,520.7	4,960.0	5,302.2	5,848.3
<b>Trading profit</b>	308.5	355.8	380.2	383.7	401.1	409.2	422.3	470.2	500.5	554.7
Computer software amortisation	-	(1.1)	(1.5)	(2.0)	(2.6)	(3.6)	(4.5)	(4.3)	(5.4)	(8.7)
Finance costs (net)	(37.3)	(51.8)	(68.4)	(76.9)	(79.1)	(77.6)	(69.8)	(60.5)	(46.0)	(49.2)
<b>Adjusted* earnings before taxation</b>	271.2	302.9	310.3	304.8	319.4	328.0	348.0	405.4	449.1	496.8
Income taxes (excluding non-trading items)	(63.0)	(74.9)	(65.7)	(57.8)	(64.5)	(62.7)	(61.2)	(68.7)	(74.6)	(79.6)
<b>Adjusted* earnings after taxation</b>	208.2	228.0	244.6	247.0	254.9	265.3	286.8	336.7	374.5	417.2
Brand related intangible asset amortisation	(48.1)	(8.7)	(8.8)	(10.1)	(10.0)	(11.3)	(12.3)	(11.8)	(13.9)	(14.7)
Non-trading items (net of tax)	0.9	(15.2)	0.1	(59.2)	1.2	(77.0)	(73.3)	(0.7)	0.1	(135.5)
<b>Profit after taxation</b>	161.0	204.1	235.9	177.7	246.1	177.0	201.2	324.2	360.7	267.0
<b>Adjusted* EPS (cent)</b>	112.1	122.3	130.8	132.8	142.4	151.8	163.9	192.1	213.4	237.6

\*Adjusted EPS is calculated before brand related intangible asset amortisation and non-trading items (net of related tax) and is considered more reflective of the Group's underlying trading performance than basic earnings per share.

Note: 2003 is presented under Irish/UK GAAP and has not been restated to IFRS.



“We are committed to the highest standards of business and ethical behaviour, to fulfilling our responsibilities to the communities which we serve and to the creation of long-term value for all stakeholders on a socially and environmentally sustainable basis”



# Sustainability

Kerry's Sustainability Programme represents a journey of continuous improvement - an ongoing process and strategy to secure sustainable growth. Sustainability is at the heart of our business strategy and enshrined in our corporate mission statement.



## Kerry's Code of Conduct

Employees at all levels in the Group must adhere to Kerry's Code of Conduct and the Group policies supporting it.

It is the responsibility of Directors and senior management to ensure that all employees who directly or indirectly report to them are fully aware of Kerry's policies and procedures regarding the conduct of Group businesses. It is also the responsibility of Directors and senior management to lead by example and to demonstrate the highest standards of integrity in carrying out their duties on behalf of the Company.

As a world leader in ingredients & flavours and as a major consumer foods organisation in Europe, Kerry aims to conduct its business in a responsible and sustainable manner. This demands a holistic approach to Group activities involving close liaison with our customers, suppliers, regulatory authorities, employees and other relevant stakeholders.

Our Kerry Group Sustainability Council appraises, directs and provides leadership in promoting industry best practice sustainability programmes throughout the Group. Its membership includes Directors of Group functions with responsibility for all pillars of Kerry's Sustainability Programme.

The Kerry Group Sustainability Council, led by a Senior Executive reports to the Group CEO - who reports to the Kerry Group Board of Directors on sustainability issues.

## Our Approach to Sustainability

This Sustainability Review outlines Kerry's vision and activities within the four main pillars of Kerry's approach to sustainable development. It also demonstrates the Group's commitment to building a sustainable, responsible business which serves and builds value for all our customers, employees, local communities, investors, suppliers and other stakeholders.

In 2012, we launched our 1 Kerry Sustainability Programme 2012-2015, which provides a Kerry Group framework through which to ensure the long-term development of the organisation by building competitiveness, while at the same time enhancing the quality of life and protecting our natural resources. The Programme represents a holistic Groupwide framework and governance approach to sustainable development. It sets out challenging short and long term targets built around four key pillars: **1) Environment**, **2) Marketplace**, **3) Workplace** and **4) Community**.

## 1 Kerry Sustainability Programme 2012-2015



1 Environment	2 Marketplace	3 Workplace	4 Community
<i>Climate Efficiency Waste</i>	<i>Quality Sourcing Nutrition</i>	<i>People Ethics</i>	<i>Social Economic</i>
<b>Aspirations</b>			
Continue to improve our environmental stewardship	Through our leading innovation and product development expertise, we will continue to enhance the nutritional value of our ingredients and continue to assist our valued customers	Continue to conduct our business in a responsible and ethical manner and be an employer of choice	Be a responsible neighbour by driving and supporting outreach initiatives in our local communities
Drive efficiency in resource use (energy & water)	Make quality a distinguishing capability	Through our Code of Conduct we will continue to provide a safe and healthy environment in which to work	Continue to partner with the international programme to alleviate world hunger in developing regions
Exceed in efforts to reduce waste and increase recycling	Ensure responsible sourcing practices		
	Ensure 75% of strategic supply partners are formalised as members of SEDEX		
<b>Three Year Strategic Plan</b>			
Manage climate change, drive efficiency in resource use and reduce waste	Leverage Kerry's ingredients & flavours' technology platforms and applications expertise to improve nutritional values of food and beverage products in partnership with our customers	Drive ethical business practices and compliance to Kerry Code of Conduct	Assist and actively engage in development programmes in our communities to improve - health and nutrition, entrepreneurship, amenity/ community development projects, education, sport and the arts
Develop long and short term sustainability gains in operations	Embed positive nutritional values in product development and innovation programmes aligned to customer requirements	Ensure wages are competitive and all labour standards are fair, equitable and meet or exceed local guidelines	Assist Concern Worldwide in implementing the 'RAIN' (Realigning Agriculture to Improve Nutrition) project in the developing world
Deliver on our brand sustainability strategy plan	Achieve Global Food Safety Initiative (GFSI) certification of all Kerry manufacturing sites	Embrace diversity across our workforce, our customer base and the communities we serve	
	Partner with our customers in sustainable sourcing of strategic ingredients		
<b>2013 Goals</b>			
Achieve our annual goal for ISO 14001 approvals	Implementation of 1 Kerry Global Quality Management System (GQMS)	Promote Kerry employee brand values	Formalise community engagement programmes in all our communities
Achieve an overall 12% reduction in greenhouse gas emissions by 2014 (compared to baseline year 2009)	Implementation of 1 Kerry Global Food Safety Initiative (GFSI)	Formalise policies in line with Human Rights Conventions	Share community support best practices
Reduce water use by 4% by 2014 (compared to baseline year 2011)	Achieve our annual targets for SEDEX membership	Implement 1 Kerry Global Health & Safety Management Systems	Support employee philanthropy programmes
Reduce waste by 6.5% by 2014 (compared to baseline year 2011)		Achieve a 5% reduction in the Accident Incident Rate (AIR)	





### Kerry's Eye for the Environment

Kerry Group is committed to supplying products that meet or exceed the expectations of our customers while conducting business in an environmentally friendly and responsible manner.

This will be achieved through;

- managing the impact on the environment in a proactive way through waste prevention and minimisation, reuse, recycling and ultimately safe disposal,
- conserving energy, raw materials and natural resources throughout all Group operations,
- adopting appropriate measures to manage environmental risks, including emergency response plans,
- complying with all applicable environmental legislation/regulations and with accepted codes of good environmental practice,

Our primary focus was to achieve an 8% reduction in greenhouse gas emissions by the end of 2012 and to achieve an overall 12% reduction in emissions by 2014 compared to the baseline year 2009. The Group has achieved its 2012 target and is on track to reach our 2014 target.

- taking account of the environment at all stages, including product development, manufacturing and distribution operations,
- encouraging and where appropriate requiring suppliers and contractors to implement sustainable environmental policies and effective environmental management systems,
- striving to continuously improve environmental performance in all aspects of the business,
- setting and reviewing specific environmental objectives and targets based on this policy – including targets relating to the conservation of energy and material resources, emissions to air, land and water and risk management,
- putting in place the necessary structures and resources, including training and awareness programmes, to underpin this policy.

### ENVIRONMENT

The Group acknowledges the universal impact of climate change and the need to stimulate economic and business development in a sustainable manner. We are actively addressing the challenges posed by climate change and have programmes in place to measure, manage and reduce climate change impacts. Our environmental responsibility policy objectives are set out in 'Kerry's Eye for the Environment'.

The Group has ongoing improvement programmes in place with respect to energy utilisation, water intake, effluent and waste; and our Sustainability Programme sets out our targets across these KPIs. Accredited Environmental Management Systems are progressively being established across all Group sites. To-date all Kerry Foods manufacturing sites have attained ISO 14001 accreditation.

In recent years we have been measuring our carbon footprint in accordance with the Greenhouse Gas (GHG) protocol and have been developing and investing in solutions to reduce carbon emissions. Our primary focus was to achieve an 8% reduction in greenhouse gas emissions by the end of 2012 and to achieve an overall 12% reduction in emissions by 2014 compared to the baseline year 2009. The Group has achieved its 2012 target and is on track to reach our 2014 target. Kerry's progress in this programme will be independently verified and reported through the Carbon Disclosure Project (CDP) process. The footprint measurement covers Scope 1 & 2 emissions (incorporating fossil fuels, transport fuel, refrigerants and electricity related emissions) and defined emissions related to business travel.

Partnership is essential to addressing solutions for complex environmental challenges. Kerry Group works with governments, non-governmental organisations (NGOs) and customers to understand the environmental issues we face.



**MARKETPLACE**

Everyday millions of people throughout the world consume food or beverage products produced by Kerry or by our customers using our ingredients & flavours. Through our leading innovation and product development expertise, we work closely with our customers to develop and deliver great-tasting, nutritious foods and beverages. This is achieved through:

- the creative and successful integration of the industry's largest, most comprehensive portfolio of ingredients & flavours including a broad portfolio of active, functional ingredients,
- biological sciences expertise including a complete understanding of dietary guidelines, the latest nutrition and health research and the potential nutrient needs of specific populations,
- an extensive knowledge of consumer attitudes towards nutrition and health/wellness trends.

In combination with our unrivalled culinary, applications and sensory expertise, Kerry is uniquely positioned to provide customers with solutions that allow them to deliver against a number of consumer needs within the nutritional management space. We fully recognise our role in making a positive contribution to healthy diets and lifestyles and have enabled our customers to achieve significant improvement in the nutritional value of their product offerings through calorie reduction, sodium reduction, reduced saturated fats, elimination of trans-fat and incorporation of all-natural ingredients.

**Nutritional Expertise and Positive Nutrition**

Kerry continues to improve the nutritional content and the product ranges of all our ingredients and brands, in line with established up to date research, without compromise on taste or quality. Our Research Centres of Excellence provide research and expertise enabling the development of new products to meet consumers' changing health and nutritional needs. Our nutritionists also collaborate with external scientific and nutrition experts to assist in product innovation. Kerry has fostered a commitment to food research since its inception through experienced on-site technical and new product development personnel. The Group employs some 1000 scientists and food science specialists throughout our Technology & Innovation Centres and Regional Development & Application

Centres. In 2012, Group expenditure on research, development and application increased to €186m.

The Group's consumer foods division recognises the role the food industry has to play in helping overcome public health concerns. Kerry Foods is committed to ensuring our products can be consumed with confidence as part of a healthy balanced diet and lifestyle, and has established four areas of priority which underline our commitment.

**'Better for You' Programme**

Kerry Foods 'Better For You' Programme aims to improve existing products and develop new ones that can contribute to a healthy balanced diet and lifestyle. The primary focus of our 'Better For You' Programme is to reduce calories, saturated fat, and sodium, and add positive nutrition as appropriate without compromising on taste. A strong scientific foundation underpins our reformulation priorities.

In 2012 Kerry Foods joined the Department of Health Public Health Responsibility Deal calorie reduction pledge in the UK. As part of this pledge, we aim to reduce calories by on average 5% in key brands across the categories in which we operate by the end of 2014. An initial achievement under this initiative includes a 14% calorie reduction in the cooked uncured meat category.

Kerry Foods also commenced fortification of Cheestrings with vitamin D. Each Cheestring now contains 25% of the recommended daily allowance (RDA) for calcium and vitamin D. This was in response to a key public health concern in relation to low Vitamin D intakes in UK and Irish children.

LowLow continued to build on the 2010 launch of the brand into the UK market. The LowLow brand consists of a range of cheese products and butter spreads all which contain at least 30% less fat compared to the standard equivalent product. The brand offers consumers a healthier alternative within these categories without compromising on taste.

Our Foods' division continues to make good progress in its active salt reduction programme and is focused on achieving Department of Health salt targets across our categories.

In 2012, in response to consumer concerns regarding artificial ingredients, Kerry launched the first 100% natural ingredients ham onto the Irish & UK markets.

## Eye for Food Safety and Quality

Kerry is committed to producing safe, high quality food ingredients and consumer food products that consistently satisfy customer needs while complying with all applicable regulatory requirements. As a 1 Kerry organisation leveraging a holistic quality management system, we deliver on this commitment by:

- achieving a right first time quality culture and engagement through people development and ongoing training programmes,
- adhering to standardised global policies, systems and standards,
- supporting global procurement activities/ opportunities while safeguarding food safety, quality and sustainability,
- leveraging cross-functional ways of working to ensure quality is designed in at 'New Product Development' stage,
- optimising and standardising testing capability through automation, validation and trend analysis,
- driving continuous improvement by benchmarking, auditing and monitoring performance to targets,
- fostering a culture inclusive of trust, teamwork, responsibility, open communications, empowerment, high expectations and clear accountability.



### Consumer Information

Kerry provides the clear information necessary for consumers to make informed choices. This is achieved through on-pack nutritional labelling and the development of additional consumer information services e.g. business/brand websites.

The Group has established best practice guidelines for nutrition labelling. We believe all products should carry clear, simple nutritional details that are consumer friendly. We support on-pack labelling based on the 8 major nutrients and the use of 'Guideline Daily Amounts'. We continue to review how best to display additional on-pack information in line with consumer research.

Our customer enquiry lines are manned by experienced teams who answer all nutritional queries in an efficient and professional manner.

### Marketing

Kerry is passionate about promoting the real food values of our products and in our advertising we ensure a responsible approach with particular consideration given to the status of children. Our advertising and brand positioning conforms to national advertising codes of practice.

### Collaboration

We continue to work with relevant organisations and government bodies to promote the best possible solutions to questions of health and nutrition and we actively participate in food and nutrition groups, ensuring an industry-wide approach to diet and nutrition issues.

### Food Safety

Kerry is committed to excelling in product quality, product safety, technical and marketing creativity and service to our customers. This is achieved through the skills and wholehearted commitment of all our employees. As food safety is of paramount importance to Kerry, we work closely with our customers, with industry and regulatory agencies to ensure we operate to the highest industry standards and levels of accreditation.

### 1 Kerry Global Quality Management System (GQMS)

Kerry is committed to producing high quality food ingredients and consumer food products that consistently satisfy customer needs while complying with all applicable regulatory requirements. Each business unit has established exacting product and service standards in support of these goals and put in place resources and programmes to assure superior manufacturing practices that reflect continuous improvement through our people, practices, processes and products. All employees in Kerry are responsible for understanding their internal and external customer's needs and developing work processes that achieve enhanced consumer value.

### Kerry Group Code of Conduct for Suppliers

The Group Supply Chain Management System includes the requirement for all suppliers, vendors, contractors, consultants and agents to adhere to Kerry's labour standards and Code of Conduct policies. Group businesses are members of SEDEX, the Supplier Ethical Data Exchange to ensure supplier compliance with Kerry Codes of Conduct and principles.



**WORKPLACE**

Central to Kerry's success is the commitment, skill and creativity of our people. Retaining and developing their enthusiasm and determination to succeed is central to the Group's strategy for growth and development.

Through our Kerry Code of Conduct, we focus critical attention on ethical business practices and provision of a safe and healthy work place. Business conduct that demonstrates respect for co-workers, suppliers, customers and partners is an absolute expectation.

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

Kerry will continue to ensure excellence in management practice through the ongoing development of business aligned human resource systems and initiatives. The Group provides structured training and development programmes for employees through which they can enhance the skills, knowledge and capability necessary for further growth within the organisation.

**Employee Communications**

At Kerry, we recognise the value and individual responsibility for sharing ideas and information with each other. This practice of 'open communication' enhances our ability to achieve our business goals and contributes to a more satisfying work experience for all. It is our policy to communicate honestly, accurately, regularly, and consistently with each other at all levels, empowering line managers to be the prime communicators of information to employees in their team. In addition, employees will be encouraged and expected to contribute their thoughts and ideas during this two-way process.

**Employee Concerns Disclosure**

The Kerry Group Employee Concerns Disclosure Policy directs employees to appropriate means of reporting alleged misconduct and allows employees to freely voice concerns.

**Anti-Bribery**

The Kerry Group Anti-Bribery Policy describes Kerry's zero tolerance for bribery and provides guidelines to all employees regarding situations involving bribery.

**Anti-Fraud**

Kerry Group is committed to maintaining the trust and confidence of its shareholders and will take appropriate action against any person that is involved in, or assists with, committing fraud and will actively seek appropriate recourse against all parties involved in fraudulent activity. The Group Anti-Fraud Policy defines what constitutes fraud and what is expected of employees in relation to the prevention and reporting of fraud.

**Anti-Money Laundering**

The Kerry Group Anti-Money Laundering Policy is established to inform employees that money laundering is not tolerated at Kerry.

**Freedom of Association**

Kerry respects our employees' right to choose to join or not join a trade union, or to have recognised employee representation in accordance with local law. We believe in the rights of workers to associate freely and bargain collectively and are committed to fostering open and inclusive workplaces that are based on recognised workplace human rights and our belief that every employee's actions contributes to Group success.

**Lobbying**

The Kerry Group Lobbying Policy provides guidance to all employees on what are appropriate measures for lobbying. Regulations vary around the globe; therefore only certain individuals within our company may engage in lobbying efforts on the Company's behalf.





### No Child or Forced Labour

All employment with Kerry is voluntary. We do not use child or forced labour in any of our operations or facilities. We do not tolerate any form of unacceptable treatment of workers, including but not limited to the exploitation of children, physical punishment or abuse, or involuntary servitude. We fully respect all applicable laws establishing a minimum age for employment, in order to support the effective abolition of child labour worldwide.



### Political Activities and Contributions

As a non-partisan organisation, Kerry Group businesses are prohibited from supporting political parties, either directly or indirectly. The Group or its constituent businesses do not, nor will not make financial contributions to political parties, political candidates or public officials.

### Trade Controls

The Kerry Group Trade Controls Policy provides information to employees regarding acceptable practices while conducting business transactions and ensures trade compliance by conducting all trade transactions legally.

### Wage and Hour Practices

Kerry employs thousands of people around the world and seeks to apply consistent and fair wage and hour practices to each and every one. Kerry abides by all laws and regulations regarding pay practices and the classification of employment according to job level and status. Kerry withholds deductions as required by law, including applicable taxes and/or court ordered or enforceable garnishments. The Wage and Hour Practices Policy defines expectations for adherence to Kerry policies and federal and local laws regarding pay practices.

### Diversity and Inclusion

Diversity is embraced at Kerry Group. We recognise that a diverse mix of backgrounds, skills and experiences drives new ideas, products, and services and provides us with a sustained competitive

advantage. As a result, we recruit, hire, develop and retain the best talent from around the world who are dedicated to achieving excellence for all of our stakeholders.

### Harassment-Free Workplace

We believe it is our responsibility to treat each other with respect and provide all employees with a working environment free of harassment. We have a zero tolerance policy for harassment - whether sexual, verbal, or visual - and will investigate all alleged harassment promptly.

### Health and Safety

Kerry Group's executive management is committed to a healthy and safe workplace. We manage our business responsibly, in accordance with the requirements set forth in the Group's Eye for Safety Policy, which establishes the fundamental principles that all employees must integrate into their role and each business decision they make.

### Non-Discrimination

We believe everyone should be treated with respect regardless of their background. We are committed to the elimination of discrimination based on gender, race, class, economic status, ethnic background, sexual orientation, age, political beliefs, veteran status, marital status or any other protected class.

### Voice a Concern

Employees are encouraged to contact any of the following sources for additional guidance should an employee need to take an ethical issue or concern to someone else for clarification of what action is appropriate:

- immediate supervisor or manager,
- Human Resources representative,
- or the Group's 'Voice a Concern' Ethics Hotline.

The Voice a Concern Ethics Hotline is a confidential reporting system available – online or by telephone – in more than 100 languages.



**COMMUNITY**

Kerry has a proud record of supporting community initiatives and charitable causes. Right through its history from its origins in the co-operative sector in Ireland, the Group has committed significant financial resources and considerable management/employee time in assisting development of facilities, amenities and charitable projects in the communities where it operates. This philosophy continues to be a core value of the Kerry organisation and on an annual basis the Group sponsors a wide range of education, healthcare, sporting, leisure, arts, amenity, community development and charitable causes. Kerry continues to play a vital role in supporting local communities and in participating in community development programmes throughout the world.

**Community Focus Areas**

In our communities our primary areas of focus and support are; (a) health, hunger and nutrition, (b) entrepreneurship, (c) amenity/community development, (d) education, arts and sport and (e) sustainable agriculture. These areas are of critical importance to our customers, consumers, employees, shareholders and the communities in which we operate.

In December 2011, Concern Worldwide and Kerry Group announced a pioneering initiative aimed at improving undernutrition and mortality rates in children under two years of age in the developing world. Kerry is contributing €1.25m of the overall €3.7m budget to the five year pilot project called RAIN (Realigning Agriculture to Improve Nutrition) in the Mumbwa District, Central Zambia.

The overall objective of the RAIN project is to develop a sustainable model that combines agricultural and nutrition/health interventions to effectively prevent child and maternal under nutrition among rural poor communities. By increasing the amount of micronutrient-rich food crops produced at household level, in combination with targeted nutrition/health behaviour change communication activities, the prevalence of chronic malnutrition



among young children of poor and extremely poor households will be reduced and the nutritional status of mothers will be improved. The specific objectives of the project are:

- to reduce the prevalence of chronic malnutrition among young children and improve the nutritional status of mothers in Mumbwa District through targeted interventions during the critical period from conception through 23 months of age (the first 1,000 days of life);
- to realign and integrate activities and mechanisms within the Ministry of Agriculture and Livestock and the Ministry of Health, especially at the District level, to more effectively and efficiently achieve sustainable nutritional outcomes; and
- to use and share evidence generated at the District level to influence the local, national and international policy agenda to prevent child stunting.

In 2012, the first full year of the programme, RAIN is already changing the lives of over 20,500 people – with nearly 3,500 families thriving - ensuring that crops grown and small livestock raised, together with vital nutrition and health education, address the specific nutritional needs of mothers and children during the critical 1,000 days window of opportunity.

It is intended that the RAIN project model can be scaled up and replicated in other areas of Zambia and in other countries where Concern is working. The successful implementation of this programme will identify sustainable scalable and replicable solutions for the prevention of undernutrition and child deaths.

The Programme can therefore significantly assist in influencing international policy in respect of prevention of childhood stunting and undernutrition. Kerry Group will leverage its position as a world leader in food technology to assist in the development of customised, locally produced, nutritional products suited to the requirements of children, mothers and growing diets.

In line with Kerry's primary area of focus in supporting our communities, a broad range of community development, amenity, entrepreneurship, education, arts, sport, heritage and economic development projects are being successfully implemented throughout all Group businesses.



# Report of the Directors

## **Directors and Other Information**

### **Directors**

Denis Buckley, Chairman  
Stan McCarthy, Chief Executive Officer\*  
Brian Mehigan, Chief Financial Officer\*  
Gerry Behan, President & CEO Kerry Ingredients & Flavours\*  
Flor Healy, CEO Kerry Foods\*  
Kieran Breen  
Sean Bugler  
Denis Carroll  
Michael Dowling  
Patrick G. Flahive  
Joan Garahy  
James C. Kenny  
Gerard O'Hanlon  
Michael Teahan  
Philip Toomey  
Denis Wallis

all of Prince's Street, Tralee, Co. Kerry, Ireland

\*Executive

### **Secretary and Registered Office**

Brian Durrán  
Kerry Group plc  
Prince's Street  
Tralee  
Co. Kerry  
Ireland

### **Registrar and Share Transfer Office**

Brian Durrán  
Registrar's Department  
Kerry Group plc  
Prince's Street  
Tralee  
Co. Kerry  
Ireland

### **Website**

[www.kerrygroup.com](http://www.kerrygroup.com)



The Directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2012.

## Principal Activities

Kerry Group is a major international food corporation. The Group is a world leader in ingredients and flavour technologies serving the food, beverage and pharmaceutical industries and is also a leading consumer foods processor and supplier in selected EU markets.

Listed on the Irish and London Stock Exchanges, Kerry has 140 manufacturing facilities across five continents and provides over 15,000 food and ingredient products via its network of international sales and technical centres to a wide customer base in 140 countries.

Through a commitment to excellence, technological creativity, total quality, superior customer service and the wholehearted commitment of all employees, Kerry aims to continue to enhance its leadership position as a global food ingredients & flavours supplier and to further develop its consumer foods business in Ireland and the United Kingdom.

## Results and Dividends

The Directors are pleased to report profit after taxation of **€267.0m** for the year. Earnings per share (EPS) before brand related intangible asset amortisation and non-trading items (net of related tax) increased **11.3%** over 2011 to **237.6 cent** (2011: 213.4 cent). Basic EPS for the year is reported at **152.0 cent** (2011: 205.5 cent). Revenue for the year amounted to **€5.8 billion** (2011: €5.3 billion). Further details of the results for the year are set out in the Consolidated Income Statement, in the related notes forming part of the financial statements and in the Business Review. The Group's key performance indicators are discussed in the Financial Review.

On 25 February 2013, the Directors recommended a final dividend totalling **€43.9m** in respect of the year ended 31 December 2012 (see note 10 to the financial statements). This final dividend per share is an increase of **11.6%** over the final 2011 dividend paid on 11 May 2012. This dividend is in addition to the interim dividend paid to shareholders on 16 November 2012, which amounted to **€19.0m**.

The payment date for the final dividend will be 10 May 2013 to shareholders registered on the record date 12 April 2013.

## Share Capital

Details of the share capital are shown in note 27 of the financial statements. The authorised share capital of the Company is €35,000,000 divided into 280,000,000 A ordinary shares of 12.5 cent each, of which **175,626,663** shares were in issue at 31 December 2012.

The A ordinary shares rank equally in all respects. There are no limitations on the holding of securities in the Company.

There are no restrictions on the transfer of fully paid shares in the Company but the Directors have the power to refuse the transfer of shares that are not fully paid. There are no deadlines for exercising voting rights other than

proxy votes, which must be received by the Company at least 48 hours before the time of the meeting at which a vote will take place. There are no restrictions on voting rights except:

- where the holder or holders of shares have failed to pay any call or instalment in the manner and at the time appointed for payment; or
- the failure of any shareholder to comply with the terms of Article 14 of the Company's Articles of Association (disclosure of beneficial interest).

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights.

The Directors have the authority to issue new shares in the Company up to the authorised but unissued share capital of the Company but may only allot shares for cash on a non pro-rata basis up to a maximum of 5% of the issued share capital. This authority will expire on 2 May 2013 and it is intended to seek shareholder approval for a new authority at the Annual General Meeting (AGM) to be held on 1 May 2013.

During 2012, **86,241** shares vested under the Company's Long Term Incentive Plan. During 2012, **5,610** share options granted under the Company's Long Term Incentive Plan were exercised. Further details are shown in note 28 to the financial statements.

The Company may purchase its own shares in accordance with the Companies Acts and the Company's Articles of Association. At the 2012 AGM, shareholders passed a resolution authorising the Company to purchase up to 5% of its own issued share capital but the authority was not exercised. This authority is due to expire on 1 May 2013 and it is intended to seek shareholder approval for its renewal at the AGM.

## Articles of Association

The Articles of Association empower the Board to appoint Directors but also require Directors to retire and submit themselves for re-election at the next AGM following their appointment. Specific rules regarding the re-election of Directors are referred to on pages 48 and 59.

The regulations contained in the Articles of Association of the Company may be amended by special resolution with the sanction of shareholders in a general meeting.

## Significant Agreements

The Company's financing arrangements include 'Change of Control' provisions which give its lending institutions the right to withdraw their facilities in the event of a change of control occurring unless they agree otherwise in writing. Other than change of control provisions in those arrangements, the Company is not a party to any other significant agreements which contain such a provision.

# Report of the Directors

## Acquisitions

The Group completed a number of acquisitions during the year. The businesses acquired are described in the Chief Executive's Review and in note 30 and note 36 to the financial statements.

## Research and Development

The Group is fully committed to ongoing technological innovation in all sectors of its business, providing integrated customer-focused product development leveraging our global technology capabilities and expertise. To facilitate this, the Group has invested in highly focused research, development and application centres of excellence with strategically located Global Technology & Innovation Centres, supported by Regional Development & Application Centres. It is by leveraging these global resources and sharing industry, academic and Group-wide scientific developments and knowledge that Kerry will continue to lead in its chosen sectors and proactively meet customer and market needs. The Group recognises the need to evaluate market trends, stay at the forefront of technological development and bring these together to deliver commercially successful solutions in the dynamic and competitive food and beverage marketplace.

Expenditure on research and development amounted to **€185.9m** in 2012 (2011: €167.1m).

## Employees

Kerry Group's success is built around the commitment, skills and creativity of the Group's employees. At Kerry, the focus is on developing our employees' enthusiasm and determination to succeed which is central to the Group's growth strategy. The value of sharing ideas and information with each other is recognised and open communication not only enhances the ability to achieve the Group's business goals it also contributes to a more satisfying work experience for all. It is our policy to communicate honestly, accurately, regularly and consistently with each other at all levels. The Group's policy is to empower line managers to be prime communicators of information to employees in their team. In addition employees are encouraged and expected to contribute their thoughts and ideas during this two-way process.

Diversity is embraced at Kerry Group and there is a commitment to having a work environment that is respectful of everyone. In order to achieve a positive and productive workplace, we work together and realise each individual has something unique to contribute to the overall success of the Group. The Group also recognises that a diverse mix of backgrounds, skills and experiences drives new ideas, products and services and provides us with a sustained competitive advantage. As a result, the Group recruits, hires, develops and retains the best talent from around the world who are dedicated to achieving excellence for all of our stakeholders.

Kerry's Code of Conduct defines business conduct standards for employees across all business areas, functions, locations and roles. The Code of Conduct is applicable to anyone working with or on Kerry's behalf. Ethical everyday actions are the basis of trustworthy, productive relationships with each other, our shareholders, our customers and our suppliers.

Kerry will continue to ensure excellence in management practices through the on-going development of business aligned human resource programmes and initiatives. The Group provides both externally facilitated and in-house structured training and development programmes for employees to enhance the skills, knowledge and capability necessary for further growth within the organisation.

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

The average employment of the Group worldwide in 2012 was **24,182** (2011: 24,045).

## Sustainability

Kerry Group is committed to the highest standards of business and ethical behaviour, to fulfilling its responsibilities to the communities it serves and to the creation of long term value for all stakeholders on a socially and environmentally sustainable basis. Our Corporate Mission statement provides a guiding framework for management and all employees in delivering the Group Sustainability Policy across all operations and worldwide activities. Our Kerry Sustainability Council, with representation from business and functional leadership, provides direction and governance in the implementation of industry best practice sustainability programmes and standards throughout the Group.

The Group is committed to achieving its sustainability vision and objectives through a holistic approach involving close liaison with customers, suppliers, regulatory authorities, employees and other relevant stakeholders. In relation to climate change and the environment, this commitment is borne out by continued investment in facilities, systems and processes that manage waste emissions, energy consumption and materials/packaging conservation. The Group recognises environmental protection as a critical part of all business activities and continues to develop employees' knowledge regarding environmental responsibilities and best practice. Through the adoption of best practice procurement policies, the Group is committed to sourcing raw materials sustainably as it continuously seeks to enhance its role as a leading international food company and supplier of quality products to its valued customers.

Building on Kerry's nutritional expertise, we continue to invest considerable Group resources in innovation programmes to enhance the nutritional quality of our Ingredients & Flavours systems and consumer products. We also recognise that the Group's success has been achieved through the commitment, skills and creativity of Kerry's employees. Effective management of health and safety and employee welfare and training is given the utmost priority by the Group.

Further details regarding Group policies, programmes and projects in respect of the marketplace, environment, workplace and the community are outlined in the Sustainability Review.

## Future Developments

Kerry Group is well positioned across global food, beverage and pharmaceutical growth markets and our strong technology platforms will continue to lead innovation and category growth. The Group is confident

that good growth rates are achievable through application of our industry leading ingredients & taste technologies and pharma, functional and nutritional ingredients in developed and developing markets. In addition, in the Group's selected consumer foods categories, the underlying strength of Kerry Foods' brands and its focus on product innovation and positioning in convenience growth categories will sustain profitable growth. The Group is well positioned to actively pursue strategic acquisition opportunities which will support top-line and earnings growth into the future.

## Board of Directors

The Board consists of 4 Executive and 12 independent Non-Executive Directors. The current Directors are as listed on page 44.

### Denis Buckley

*Non-Executive Director  
Chairman of the Board  
Age 67*

Denis Buckley was appointed to the Board on 6 June 1986 and has served as a Director for 27 years. He has served as Chairman for nine years, having been appointed in August 2003. He has been a member of the Remuneration and Nomination Committees for 16 years following his appointment in 1996 and currently chairs the Nomination Committee. Denis is a director of the Irish Agricultural Wholesale Society Limited and is a former director of Aryzta AG and One Fifty One plc.

### Stan McCarthy

*Executive Director  
Chief Executive Officer  
Age 55*

Stan McCarthy joined Kerry's graduate recruitment programme in Ireland in 1976 and worked in a number of finance roles until his appointment as financial controller in the USA on the establishment of Kerry's operations in Chicago in 1984. Following the Group's acquisition of Beatreme Foods Inc. in 1988 he was appointed Vice President of Materials Management and Purchasing. In 1991, he was appointed Vice President of Sales and Marketing and became President of Kerry North America in 1996. He was appointed to the Board on 9 March 1999 and has served as a Director for 14 years. He was appointed Group Chief Executive Officer on 1 January 2008 and has served in this role for five years.

### Brian Mehigan, FCA

*Executive Director  
Chief Financial Officer  
Age 51*

Brian Mehigan joined Kerry Group in 1989, having previously worked in practice for six years. He held a number of finance positions within Kerry between 1989 and 2002. He has served as Chief Financial Officer and as an Executive Director on Kerry Group plc's Board for 11 years, having been appointed on 25 February 2002. He is a Fellow of the Institute of Chartered Accountants in Ireland and a graduate of National University of Ireland, Cork.

### Gerry Behan

*Executive Director  
President & Chief Executive Officer of Kerry Ingredients & Flavours  
Age 48*

Gerry Behan joined Kerry's graduate recruitment programme in 1986 and has held a number of senior financial and management roles primarily in the Americas Region. He was appointed President and Chief Executive Officer of Kerry Ingredients & Flavours Americas in 2008 and was appointed as an Executive Director to Kerry Group plc's Board on 13 May 2008 and has served as a Board member for five years. He was appointed President and Chief Executive Officer of Kerry Ingredients & Flavours global business on 19 December 2011.

### Flor Healy

*Executive Director  
Chief Executive Officer of Kerry Foods  
Age 50*

Flor Healy joined Kerry's graduate recruitment programme in 1984 and has worked for the Group in a number of leading management and finance roles in Ireland and the UK. He was appointed Chief Executive Officer of the Group's Consumer Foods Division in 2004 and was appointed as an Executive Director to Kerry Group plc's Board on 23 February 2004 and has served as a Board member for nine years.

### Kieran Breen

*Non-Executive Director  
Age 58*

Kieran Breen has served for two years on the Board having been appointed a Director on 12 January 2011. Kieran operates his own business in the agribusiness sector and is a director of Kerry Co-operative Creameries Limited.

### Sean Bugler

*Non-Executive Director  
Age 51*

Sean Bugler was appointed a Director on 13 December 2012. Sean operates his own business in the agribusiness sector and is a director of Kerry Co-operative Creameries Limited.

### Denis Carroll

*Non-Executive Director  
Age 62*

Denis Carroll was appointed to the Board on 1 January 2005 and has served as a Director for eight years. Denis is a director of Kerry Co-operative Creameries Limited and he also operates his own business in the agribusiness sector. He was a member of the Audit Committee for two years, having been appointed in January 2010. He retired from this Committee on 20 February 2012.

## Report of the Directors

### **Michael Dowling**

*Non-Executive Director*

*Age 68*

Michael Dowling was appointed to the Board on 3 March 1998 and has served as a Director for 15 years. Michael chaired the Audit Committee for 13 years having been appointed in January 2000 until he stepped down as chair on 25 February 2013. He continues to be a member of the Audit Committee and is also a member of the Nomination Committee since January 2001. He retired from the Remuneration Committee on 20 February 2012. Michael is a director of a number of private companies. He is a former secretary general of the Department of Agriculture and Food in Ireland. He is also the chairman of the board of management of the UCC/Teagasc Food Research and Innovation Alliance and is a visiting professor in the Faculty of Food Science and Technology at National University of Ireland, Cork.

### **Patrick G. Flahive**

*Non-Executive Director*

*Age 48*

Patrick Flahive has served for two years on the Board having been appointed a Director on 12 January 2011. Patrick operates his own business in the agribusiness sector and is a director of Kerry Co-operative Creameries Limited.

### **Joan Garahy**

*Non-Executive Director*

*Age 50*

Joan Garahy has served one year on the Board having been appointed a Director on 11 January 2012. In addition to being a director of a number of private companies, Joan is managing director of ClearView Investments & Pensions Limited, an independent financial advisory company. She has 23 years of experience of advising on and managing investment funds. She is a former managing director of HBCL Investments & Pensions and director of investments at HC Financial Services. In the past she worked with the National Treasury Management Agency as head of research at the National Pension Reserve Fund and was also head of research with Hibernian Investment Managers. Prior to that, she spent ten years as a stockbroker with Goodbody and NCB. On 20 February 2012 Joan was appointed to chair the Remuneration Committee and became a member of the Audit Committee on the same date.

### **James C. Kenny**

*Non-Executive Director*

*Age 59*

James C. Kenny has served almost two years on the Board having been appointed on 1 June 2011. James is currently Executive Vice President of U.S. based Kenny Construction Inc. and is President of Kenny Management Services Inc. He previously served as US Ambassador to Ireland from July 2003 to June 2006. James was appointed a member of both the Remuneration and Nomination Committees on 20 February 2012.

### **Gerard O'Hanlon**

*Non-Executive Director*

*Age 64*

Gerard O'Hanlon was appointed to the Board on 4 December 2006 and has served as a Director for six years. Gerard operates his own business in the agribusiness sector and is a director of Kerry Co-operative Creameries Limited.

### **Michael Teahan**

*Non-Executive Director*

*Age 45*

Michael Teahan has served one year on the Board having been appointed on 11 January 2012. Michael is a director of the Irish Co-operative Organisation Society Limited and is also a director of Kerry Co-operative Creameries Limited. He operates his own business in the agribusiness sector.

### **Philip Toomey**

*Non-Executive Director*

*Senior Independent Director*

*Age 59*

Philip Toomey was appointed to the Board on 20 February 2012. Philip was formerly Global Chief Operating Officer for the financial services industry practice at Accenture. Philip has wide ranging international consulting experience and was a member of the Accenture Global Leadership Council. He is a Fellow of the Institute of Chartered Accountants in Ireland and is a Board member of United Drug plc to which he was appointed in 2008. Philip was appointed as the Senior Independent Director to the Kerry Group plc Board on 20 February 2012 and he was also appointed as a member of the Audit Committee on the same date. Philip was appointed Chairman of the Audit Committee on 25 February 2013.

### **Denis Wallis**

*Non-Executive Director*

*Age 63*

Denis Wallis was appointed to the Board on 29 January 2003 and has served as a Director for ten years. Denis was formerly a director and chairman of Golden Vale plc. He is a director of Kerry Co-operative Creameries Limited and was a member of the Audit Committee for six years, having been appointed in January 2006. He retired from this Committee on 20 February 2012. He also operates his own business in the agribusiness sector.

## Board Changes

Mr. Sean Bugler was appointed to the Board on 13 December 2012 to fill the vacancy caused by the retirement of Mr. Noel Greene. Mr. Bugler is a director of Kerry Co-operative Creameries Limited and operates his own business in the agribusiness sector.

## Election of Directors

Under Article 102 of the Company's Articles of Association Mr. Sean Bugler who was appointed to the Board since the previous AGM will retire at the next AGM and, being eligible, is seeking re-election.

All other Directors will retire by rotation at the AGM and they being eligible, are seeking re-election at that meeting.

The Board, after considering the results of the performance evaluation of individual Directors, recommends the re-election of all Directors seeking re-election.



## Substantial Interests

The Directors have been notified of the following shareholdings of 3% or more in the issued share capital of the Company:

Shareholder	Number Held	%
Kerry Co-operative Creameries Limited (KCC)	30,057,906	17.1%
The Capital Group Companies, Inc.	9,865,824	5.6%
Prudential plc Group of Companies	5,510,860	3.1%

Apart from the aforementioned, the Company has not been notified of any interest of 3% or more in the issued share capital of the Company.

## Statement of Directors' Responsibilities

Irish company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2012, Article 4 of the IAS Regulations and the Listing Rules of the Irish Stock Exchange and the UK Listing Authority. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Group website.

The Directors of Kerry Group plc acknowledge these responsibilities and accordingly have prepared this consolidated Annual Report for the year ended 31 December 2012 in compliance with the provisions of Regulation (EC) No. 1606/2002, regulations 4 and 5 of Statutory Instrument 277 of 2007 of Ireland, the Transparency Rules of the Central Bank of Ireland and the applicable International Financial Reporting Standards as adopted by the European Union.

The Directors also confirm that to the best of their knowledge:

- the Group consolidated financial statements for the year ended 31 December 2012 have been prepared in accordance with the applicable International Financial Reporting Standards and give a

true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation, taken as a whole, as at that date;

- the Business Review includes a fair review of the development and performance of the business for the year ended 31 December 2012 and the position of the Group and the undertakings included in the consolidation, taken as a whole, at the year end; and
- the Report of the Directors provides a description of the principal risks and uncertainties which may impact the future performance of the Group and the undertakings included in the consolidation taken as a whole.

## Corporate Governance Report

Kerry Group plc is committed to achieving high standards of corporate governance throughout the Group. The Board considers that it has complied throughout the period with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

### The Board of Directors

#### Board Composition and Role

The Board leads and maintains effective control over the Group's activities. The current Board size is 16 and comprises a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer, two other Executive Directors and 11 Non-Executive Directors. Following engagement with the Company's largest shareholder KCC in 2011, the number of candidates nominated by KCC for appointment to the Board will reduce to four candidates from seven effective 1 January 2014.

The current Directors on the Board have extensive business experience which they utilise effectively in governing the Company. The Board as a whole believe the Directors bring the range of skills, knowledge and experience, including food industry experience and international experience, necessary to lead the Company. As detailed on pages 52 to 55, the key risks and uncertainties facing the Group relate to strategic, operational, financial and compliance risks. The Directors have determined that the composition of the Board provides sufficient commercial, financial and industry specific skills and experience to address the principal risks and uncertainties facing the Group.

The Directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by shareholders in General Meeting and to the Company's Memorandum and Articles of Association. The fundamental responsibility of the Directors is to exercise their business judgement on matters of critical and long-term significance for the Group.

The Board has a formal schedule of matters specifically reserved to it for decision which includes:

- approval of the overall Group strategic and operating plans;
- approval of annual budgets (revenue and capital);
- approval of interim management statements;

## Report of the Directors

- approval of annual and interim financial statements;
- approval of acquisitions and divestitures;
- approval of risk management and internal control systems;
- corporate governance; and
- approval of treasury policy and major corporate activities.

### *Chairman and Chief Executive Officer*

The roles of the Chairman and Chief Executive Officer are separate and the division of duties between them is formally established, set out in writing and agreed by the Board. The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all respects. The Executive Directors of the Company, led by the Chief Executive Officer, are responsible for the management of the Group's business and the implementation of Group strategy and policy.

### *Board Operations*

The Chairman ensures that all Directors have full and timely access to such information as they require to discharge their responsibilities fully and effectively. Board papers are sent to each Director at least one week in advance of Board meetings and include the meeting agenda, minutes of the previous Board meeting, Chief Executive Officer's report, capital expenditure and merger and acquisitions reports together with management accounts and commentaries. The Chairman, in conjunction with the Company Secretary, has primary responsibility for setting the agenda for each meeting. At least annually, all Directors receive comprehensive reports and documentation on all matters for which they have responsibility. All Directors participate in discussing strategy, trading, financial performance and operational activities. Board meetings are of sufficient duration to ensure that all agenda items and any other material non agenda items that may arise are addressed.

All Directors are expected to prepare for and attend meetings of the Board and the AGM and that respective committee Chairmen are available to answer questions at the AGM. Should any Director be unable to attend a Board meeting in person, conferencing arrangements are available to facilitate participation. In the event that a Director cannot attend or participate in the meeting, the Director may discuss and share opinions on agenda items with the Chairman, Chief Executive Officer or Company Secretary prior to the meeting.

Each Director has access to the advice and services of the Company Secretary, whose responsibility it is to ensure that Board procedures are followed and that applicable rules and regulations are complied with. In accordance with an agreed procedure, in the furtherance of their duties, each Director is, in addition, able to take independent professional advice at the Company's expense. There is a Directors and Officers liability policy in place for all Directors and Officers of the Company against claims from third parties relating to the execution of their duties as Directors and Officers of the Company and any of its subsidiaries.

Board members undergo a full and formal induction programme on appointment to the Board. Further training is available subsequently, following regular reviews with the Chairman.

### *Senior Independent Director*

The Board appointed Philip Toomey as its Senior Independent Director (SID) on 20 February 2012. The main role of the SID is to provide a sounding board for the Chairman and to act as an intermediary for other Directors as required. The SID is responsible for the appraisal of the Chairman's performance and is also available to meet shareholders upon request but particularly if they have concerns that cannot be resolved through the Chairman or the Chief Executive Officer.

### *Independence*

Immediately following its incorporation in June 1986 the Company acquired the business, undertaking, assets and debt of Kerry Co-operative Creameries Limited (KCC) in exchange for the issue of 90,000,000 shares in the Company to KCC. The businesses and assets acquired comprised principally of a Food Ingredients business, a Consumer Foods division and an Agri business operation together with property and cash. On completion of the transaction Kerry Group plc had an enterprise value of approximately €80m. At the same time the Board of Kerry Group plc comprised the eighteen member board of KCC together with three newly appointed Executive Directors. KCC ceased to trade and became an investment holding society where its major asset was, and continues to be, its shareholding in Kerry Group plc.

Over the past twenty seven years KCC's shareholding has reduced from 100% to its current level of 17.1%. The reduction is a result of equity issues by the Company which has increased its current issued share capital to 175,626,663 shares and by decisions of KCC to distribute shares held by it in the Company to its own 12,700 shareholders. Over the same period, KCC nominated Directors on the Board of Kerry Group plc has reduced from 18 to 7 and this will reduce further to 4 by 2014. Any such Directors so nominated must first be a director of KCC which is attained by undergoing an electoral process by the membership of KCC.

It is the Board's role to ensure that the strategic objectives and financial targets of the Company are achieved and the KCC directors on the Kerry Group plc Board, through their knowledge of the industry in which the Group operates, have contributed significantly in the delivery of these objectives. The enterprise value of Kerry Group plc has grown very significantly since its formation and at 31 December 2012 was €8.2 billion. Although connected to a significant shareholder, no trading relationship exists between KCC and the Company which would impact on the independence of the KCC nominated Directors. The KCC nominated Directors are also subject to rotation on an annual basis. Taking these factors into consideration, the Board as a whole is of the opinion that such Directors are independent in both character and judgement.

Denis Buckley, Michael Dowling and Denis Wallis have each served on the Board for more than nine years from the date of their respective first elections as Directors. Denis Buckley has served as a director of Aryzta AG, a major international food corporation, and has extensive knowledge of the food and food ingredients industry. Michael Dowling served as secretary general of the Department of Agriculture and Food in Ireland. He is acknowledged as a leading expert in agri food strategy and has invaluable skills and expertise in the food and agribusiness industries. Denis Wallis was formerly chairman of Golden Vale plc and has over 30 years' experience working in the food and agribusiness sectors. The Board has conducted a rigorous review of each Director and considered the

knowledge, skills and experience of each. It believes each of them to be of continued significant benefit to the Board and also to be independent in character and judgement as their independence is reviewed on an annual basis by the Nomination Committee.

### Meetings and Attendances

The Board meets at least seven times annually including specific meetings to consider the interim results, interim management statements and full year results. In 2012 it met on 8 occasions. Attendances at scheduled Board Meetings during the year ended 31 December 2012 were as follows:

Attendance at 2012 Board Meetings	Attended	Eligible
<b>Director</b>		
Gerry Behan	8	8
Kieran Breen	8	8
Denis Buckley	8	8
Sean Bugler*	1	1
Denis Carroll	8	8
Michael Dowling	8	8
Patrick G. Flahive	8	8
Joan Garahy	8	8
Noel Greene*	7	7
Flor Healy	8	8
James C. Kenny	7	8
Stan McCarthy	8	8
Brian Mehigan	8	8
Gerard O'Hanlon	8	8
Michael Teahan	8	8
Phillip Toomey	7	7
Denis Wallis	8	8

\*Mr. Sean Bugler was appointed to the Board on 13 December 2012, replacing Mr. Noel Greene who retired from the Board.

### Board Committees

The Board has three committees in place for which it has delegated authority on a number of specific matters. These include an Audit Committee, a Nomination Committee and a Remuneration Committee. The main roles and responsibilities of these Committees are set out in written terms of reference and are available from the Group's website [www.kerrygroup.com](http://www.kerrygroup.com) and upon request.

The activities of the Audit Committee are contained in the Audit Committee Report on page 56, while the activities of the Nomination Committee are contained in the Nomination Committee Report on page 58. Details on Directors' Remuneration and the activities of the Remuneration Committee are contained in the Remuneration Committee Report on page 60.

### Board Evaluation

In the year under review an internal effectiveness review of the Board, Board committees, individual directors and the Chairman was undertaken. The review was facilitated by the Company Secretary and was undertaken using Thinking Board, Independent Audit Limited's governance self-assessment process, which provided the Board with an expert, external perspective as the foundation for the review. Independent Audit Limited is recognised as a leading firm of board reviewers, based in London, which is fully independent of Kerry Group.

The evaluation produced meaningful results, not only highlighting what is working well but also identifying issues that the Board can address to improve its effectiveness. The results were consolidated and reported to the Board for consideration.

The review covered a range of topics including:

- Board composition and culture;
- ability and effectiveness;
- role and responsibilities;
- strategic development;
- time and commitment; and
- knowledge and communication.

At a meeting in December 2012 the Non-Executive Board members, led by the Chairman, considered the Board evaluation report which included a formal review of its own performance and the Board committees.

The Chairman appraised each of the Non-Executive Directors individually utilising the same process. The key areas reviewed were independence, contribution and attendance at Board meetings, interaction with Executive Directors, the Company Secretary and senior management, their ability to communicate issues of importance and concern, their knowledge and effectiveness at meetings and the overall time and commitment to their role on the Board.

At the same time, the Senior Independent Director formally appraised the performance of the Chairman. This appraisal was similar to the Board evaluation process which included feedback from all Directors on the Chairman's performance during the year.

In line with the Group's Corporate Governance policy, a full Board performance evaluation will be undertaken in 2013 by an external agency.

In accordance with the Articles of Association, all newly appointed Directors are subject to election by shareholders at the AGM following their appointment. All other Board members are required to subject themselves for re-election by the shareholders on an annual basis. The Board sets out to shareholders, in the papers accompanying the resolutions to elect and

## Report of the Directors

re-elect the Non-Executive Directors, why they believe the individual should be re-elected. When proposing re-election, the Chairman confirms to shareholders that following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role.

### Relations with Shareholders

Communication with shareholders is of significant importance and the Company undertakes this principally through its Annual and Interim Reports, Interim Management Statements, at the AGM and through the processes described below.

Although most shareholder contact is with the Chief Executive Officer and the Chief Financial Officer, supported by management specialising in investor relations, it is the responsibility of the Board as a whole to ensure that a satisfactory channel of communication with shareholders exists. The Board strongly supports a programme of regular ongoing communication with the Company's shareholders. The programme, which is formalised within an investor relations framework, includes presentations of interim and full year results and regular meetings by senior management with the Company's institutional investors. The Group's website enables a significant amount of published material, including results and presentations, to be readily accessible to all shareholders on demand. Regular communication is also entered into with individual shareholders on a wide range of issues through this medium. The Chairman periodically attends investor meetings in order to obtain the views of shareholders and shares these views with all Directors in a timely manner. The Senior Independent Director is also available to meet shareholders on request.

The AGM provides an opportunity for the Directors to deliver presentations on the business and for shareholders, both institutional and private, to question the Directors directly. The Chairman of the Board together with the Chairman of the Audit, Remuneration and Nomination Committees are available to answer questions as required. Notice of the AGM, proxy statement and the Annual Report and Accounts are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed at the AGM on each substantially separate issue including a particular resolution relating to the report and accounts. Details of the proxy votes for and against each resolution, together with details of votes withheld are announced after the result of the votes by hand. These details are published on the Group's website following the conclusion of the AGM.

### Accountability and Audit

A statement relating to the Directors' responsibilities in respect of the preparation of the financial statements is set out on page 49 with the responsibilities of the Company's Independent Auditor outlined on page 72.

### Going Concern

The financial statements have been prepared on the going concern basis and, as required by the UK Corporate Governance Code and the Irish Corporate Governance Annex, the Directors report that they have satisfied themselves that the Group is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the Directors have reviewed the Group's budget for 2013, the medium term plans as set out in the rolling five year plan and have taken into account the cash flow implications of the plans, including proposed capital expenditure, and compared these with the Group's committed borrowing facilities and projected gearing ratios.

The Group's business activities, together with the main trends and factors that are likely to affect the future development, performance and position of the Group are outlined in the Business Review on pages 14 to 25 and the Financial Review on pages 26 to 32. The principal risks and uncertainties facing the Group are identified and described on pages 52 to 55. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial risk management are discussed in the Financial Review on pages 26 to 32. In addition, note 23 to the financial statements includes details of the Group's borrowings, financial instruments and its exposures to credit and liquidity risk.

### Principal Risks and Uncertainties

The Group operates in the dynamic and global food Ingredients & Flavours industry and in the consumer food industry in the UK and Ireland. As is the case with competitors in these industries, the Group is exposed to many and varied risks and uncertainties which are managed in order to make a profitable return for shareholders.

The risks are managed, both in the short and long term, utilising the embedded management processes adopted in the businesses along with the Group's internal control and risk management processes described in the next section.

The Group's diversity in terms of its 140 manufacturing facilities across five continents and 24 countries provides the Group with significant protection against the principal risks and uncertainties outlined on the next section.



Risk Name	Risk Description	Measures to Reduce Risks
<b>Strategic Risk</b>		
Global Economy	Current volatility in the global economy may adversely affect consumer spending which could result in less demand for the Group's products.	Although the Group is unable to influence the general economic conditions, the geographic spread of the business and diverse product portfolio provides a level of mitigation against global economic uncertainty.
Business Acquisition and Divestiture	Failure to identify, execute or properly integrate new acquisitions and/or divestitures could impact the overall financial performance of the Group.	The Group has significant experience in this area within its management team and employs a thorough and disciplined approach to pre-acquisition due diligence and post-acquisition integration and restructuring.
Product Development and Innovation	Failing to successfully manage increased market competition, new product innovations, changing market trends and consumers' taste could impact the future growth of our business.	The Group supports customers' drive for choice and market stimulation through new product development. Our commercial team works closely with our customers and consumers to ensure awareness of trends occurring in the market place, both positive and negative.
Sovereign/Political	As a multinational company, our business may be negatively impacted by political decisions, civil unrest or other developments in the countries in which we operate.	While political decisions and civil unrest are outside our control, we monitor these risks and actively manage our investment and borrowings, in consideration of the higher risk in some of the countries in which we operate.
<b>Operational Risk</b>		
Raw Material Cost Fluctuations	Fluctuating raw material costs, limited availability of key materials, competition between customers, unusual competitive actions by competitors and the resultant difficulties in adjusting prices appropriately can have a detrimental impact on operating margins.	<p>The Group deploys experienced senior purchasing and commercial managers and subject matter experts in this area to manage and mitigate such risks and adopt strategies over time to manage the positioning of the businesses in this regard.</p> <p>The Group has a global sourcing program with a diverse supplier base with whom long term relationships are maintained. The Group also monitors the economic volatility of suppliers and retains appropriate levels of high risk inventory.</p>
Kerryconnect – Implementation of SAP	Our Kerryconnect programme will establish a common Information Communication and Technology (ICT) approach and integrated systems throughout the Group. Failing to implement the Kerryconnect programme as planned and within budget could have an impact on our financial performance and business operations.	The Kerryconnect programme is a major undertaking and investment by the Group. The Group has a robust governance structure, program management and implementation teams in place led by two Executive Directors of the Group. The program plan allows for a lower risk, phased implementation schedule on a regional basis.
Information, Communication and Technology	Unauthorised access to confidential information, inaccurate data being entered into systems and/or interruption of our main operating activities could negatively impact our business.	The Group's ICT team are focused on supporting the Group's key data systems and have detailed process and access controls in place. In the event of a major system failure, the Group has a robust Disaster Recovery plan in place. All Group systems are subject to both internal and external audit reviews.
Quality and Food Safety	Poor quality or non-performing products expose the Group to product liability claims, product recall claims and litigation as well as loss of revenue, market share and negatively impact the Group's reputation.	The Group's manufacturing and supply chain functions operate a well-developed quality management system and have robust policies and procedures in place. Regular supplier audits are carried out to ensure compliance with the Group's quality and procurement standards.

## Report of the Directors

Risk Name	Risk Description	Measures to Reduce Risks
<b>Catastrophic Loss/ Unforeseen Events</b>	<p>The loss of a critical manufacturing facility, through natural catastrophe, fire, act of vandalism or the failure of critical information systems to support our operations could result in a significant impact on the Group.</p> <p>The Group may experience loss of revenue growth momentum due to unforeseen events that impact our brands and our customers' brands.</p>	<p>The spread of the Group's business and experience in numerous territories limits the concentration of these risks and allows mitigation through management actions.</p> <p>Business continuity plans are in place across the Group and are reviewed with management regularly.</p> <p>The Group has relevant insurance policies in place to mitigate and reduce the financial impact to the Group.</p>
<b>Intellectual Property</b>	<p>Kerry develops, manufactures and delivers technology based ingredients, flavours and integrated solutions for the food, beverage and pharmaceutical industry. Any failure to protect the Group's Intellectual Property could have an adverse effect on the Group's business and cash flows.</p>	<p>The Group takes all necessary precautions to protect its trade secrets and also uses patents and trademarks to protect newly developed and existing brands and products in the jurisdictions where the Group's operations are located. The Group's patents and trademarks are the subject of regular review.</p>
<b>Talent Management</b>	<p>Failure to attract, retain and develop creative, committed and skilled employees will impact the Group's ability to achieve its strategic objectives.</p>	<p>Every effort is made to ensure optimal procedures and policies are in place to attract, develop and retain the capabilities and skill levels needed to achieve the Group's business objectives. These policies include succession planning, remuneration reviews, long term and short term initiatives and development programmes.</p>
<b>Financial and Compliance Risk</b>		
<b>Financial</b>	<p><b>1. Treasury Risks</b> The Group's operations expose it to liquidity risk, foreign exchange risk, interest rate risk and credit rating risk.</p> <p><b>2. Tax Risks</b> Exposure to changes in international and domestic tax legislation with respect to global tax compliance. Failure to accumulate and consider relevant tax information may result in non-compliance with constantly evolving tax legislation.</p> <p><b>3. Post Retirement Pension Scheme Risk</b> Fluctuations in the assumption factors used for the valuation of the liabilities of defined benefit schemes can result in a significant impact on the schemes' liabilities.</p>	<p>Mitigating controls include: the use of cash flow forecasts to monitor funding requirements of the Group; netting of foreign exchange exposures; the use of spot and forward exchange contracts and currency swaps; and the use of interest rate swaps and forward rate agreements.</p> <p>The Group's Tax Function manages a strong internal compliance control programme and engages extensively with external advisors to monitor and review these controls. The Group also places strong emphasis on proactively engaging with Revenue Authorities in key tax jurisdictions.</p> <p>The Group's defined benefit pension scheme is now closed to new entrants. For the existing liabilities, external advisors and pension fund trustees are engaged to consider the deficit and the fund performance and the potential impact of the assumptions on the schemes' liabilities.</p>
<b>Eurozone</b>	<p>In light of the continued economic and financial volatility in the Eurozone, risks relating to the future of the euro currency could impact our business. In the event of a collapse of the euro currency, possible impacts would include severe financial market disruption, interest rate fluctuations, uncertainty surrounding raw material prices and also the need to revert to another presentation currency.</p>	<p>The Group completes regular reviews of the level of assets and liabilities held in both the euro currency and other currencies to ensure an appropriate balance is achieved. Over 90% of the Group's products are sold in the same currency as the currency of manufacture and the remaining net exposure is closely managed.</p>
<b>Fraud</b>	<p>As with any business, there is always a risk of fraudulent activity.</p>	<p>The Group has a strong control framework and a specific anti-fraud program should an issue arise. A set of policies and training materials are available to provide direction and clarity on this area. In addition, there are internal employee disclosure procedures in place to enable employees raise concerns in a confidential manner.</p>

Risk Name	Risk Description	Measures to Reduce Risks
Compliance	Other operational and technical compliance risks include such matters as managing compliance in an ever changing regulatory environment, specifically in the areas of health and safety, emissions and effluent and in relation to the potential outbreak of disease in an animal population or contamination in any particular food category.	The diverse products and raw materials the Group employs in its operations are substantially all natural in make up and where disease or contamination could potentially occur, the Group employs strict quality policies to reduce the level of risk encountered to a minimal level. A Group Health and Safety program is in place across the business. Our Group health and safety officers play a critical role at each facility where they provide safety training and monitor compliance.
	Non-compliance with customer requirements, prescribed organisational policies and procedures, antitrust, competition laws and local regulations could result in regulatory action, legal liability, fines and damage to the Group's reputation.	The Group has a significant investment in its regulatory function across the business to ensure compliance with appropriate regulations and legislations. The Group also operates a central department that monitors changes in regulations applicable to the business. The Group's Code of Conduct and Group policies outline in detail the expectations of all employees working for the Group.

## Internal Control

The Company, as required by the Irish Stock Exchange and the UK Listing Authority, has complied with the UK Corporate Governance Code and Irish Corporate Governance Annex provisions on internal control, having established the procedures necessary to implement the guidance issued in the Turnbull Committee Report, and by reporting in accordance with that guidance.

The Board of Directors has overall responsibility for the Group's systems of internal control and risk management. It is also responsible for monitoring the effectiveness of these systems on an on-going basis. The system of internal control provides reasonable, but not absolute, assurance of:

- The safeguarding of assets against unauthorised use or disposition; and
- The maintenance of proper accounting records and the reliability of the financial information it produces, for both internal use and for publication.

The key elements of the system are as follows:

- The Board of Directors reviews and approves a detailed annual budget each year which is used for comparison with monthly management accounts throughout the year. The Board also approves the Interim and Annual Consolidated Financial Statements;
- The Board of Directors also approves all major strategic decisions. Responsibility for each business unit is passed to local management and is overseen by the respective business manager in line with Group responsibility structures;
- Group policies and procedures are issued centrally for all material functional areas and are approved by the Executive Directors. Specific responsibility is allocated to individual managers to monitor compliance with these policies;

- The Group operates a centralised treasury function which manages the financial risks of the Group;
- The Group has a clearly defined process and information system for controlling capital expenditure including the use of appropriate authorisation levels. The overall capital expenditure programme for the year is reviewed by the Board of Directors on an on-going basis with specific projects being approved by the Board at each meeting;
- Business acquisition and disposal decisions are taken exclusively by the Board of Directors;
- The Group Finance Committee has responsibility for raising finance, reviewing foreign currency risk, making decisions on foreign currency and interest rate hedging and managing the Group's relationship with its finance providers;
- The Group uses a standardised consolidation system for the preparation of the Group's monthly management accounts, Interim and Annual Consolidated Financial Statements;
- The Group has a central financial reporting department which facilitates training and financial standards updates for the maintenance of expertise in the Group's finance personnel; and
- A procedure is in place across the Group for the submission of periodic risk and control reports from management, through the Audit Committee, to the Board. These reports emanate from the Group's Risk Assessment and Reporting System which covers strategic, operational, financial and compliance risks.

The Directors have procedures in place to enable them to continually monitor the effectiveness of the system of internal controls. These procedures include:

- The operations of the Audit Committee whose function it is to approve audit plans and deal with significant control issues raised by the internal and external auditors;

## Report of the Directors

- The Group’s internal audit function, which continually reviews the internal controls and systems across the businesses and makes recommendations for improvement and reports to the Audit Committee;
- The Group has a corporate compliance function to establish compliance policy and monitor compliance across the Group’s countries of operation, carry out compliance reviews and share best practice among the compliance functions in these countries;
- The Group operates a self-assessment system covering the key controls for the finance and treasury functions of the Group. The system facilitates a self-assessment at a local level and consolidation to a Group level. The internal audit function independently verifies a number of these assessments each year and the scores, issues and areas for improvement are reported to the Audit Committee as part of our overall governance program;
- As part of their normal audit procedures, the external auditors test the systems of internal financial control and report material weaknesses, if any, to the Audit Committee;
- The Board, through the Audit Committee, completes an annual assessment of risk and controls. The Risk Oversight Committee and the Internal Audit function facilitate the Board in this assessment by preparing a consolidated Group Risk Register and Control Report for their review. Where necessary, the Audit Committee will convene to deal with any significant control weaknesses reported by internal audit and management;
- Adherence to the Group Code of Conduct and Group policies published on the Group’s intranet, ensures the key controls in the internal control system are complied with; and
- Significant variances between the budget and detailed monthly management accounts are investigated by management and remedial action is taken as necessary.

The Directors confirm that they have reviewed the effectiveness of the system of internal control operated during the period covered by these accounts and up to the date of this report. No significant failings or weaknesses were identified from the internal controls review. The procedures adopted comply with the guidance contained in *Internal Control: Guidance for Directors on the Combined Code*.

Finally, to ensure that proper books of account are kept for the Company in accordance with section 202 of the Companies Act, 1990, the Directors employ appropriately qualified accounting personnel and maintain appropriate computerised accounting systems. The books of account are located at the Company’s registered office.

## AUDIT COMMITTEE REPORT

### Membership and Governance

During 2012, the Audit Committee comprised of three independent Non-Executive Directors; Mr. Philip Toomey, Ms. Joan Garahy and was chaired by Mr. Michael Dowling. Mr. Philip Toomey and Ms. Joan Garahy were appointed to the Committee on 20 February 2012. Mr. Denis Wallis and Mr. Denis Carroll both retired from the Committee on the same date.

In line with Board strategy on Committee refreshment, Mr. Michael Dowling stepped down as Chairman of the Audit Committee on 25 February 2013 and was replaced by Mr. Philip Toomey.

The Committee met five times during the year and attendance at these meetings is detailed below:

Director	Attended	Eligible
Denis Carroll	1	1
Michael Dowling	5	5
Joan Garahy	4	4
Philip Toomey	4	4
Denis Wallis	1	1

The Board has determined that both Mr. Toomey and Ms. Garahy have recent and relevant financial experience. Mr. Toomey is a Fellow of the Institute of Chartered Accountants in Ireland and is also an Audit Committee member of United Drug plc. Ms. Garahy has 23 years’ experience of advising on and managing investment funds.

Mr. Michael Dowling has a wide range of relevant business experience as a former Secretary General of the Department of Agriculture and Food in Ireland.

The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and representatives of the external auditors are regularly invited to attend meetings of the Committee. The Company Secretary is the Secretary of the Committee.

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is also authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of advisors with relevant experience and expertise if it considers this necessary, the expense of which is to be borne by the Company.

The main responsibilities of the Committee are set out in written terms of reference and are available from the Group’s website [www.kerrygroup.com](http://www.kerrygroup.com) and upon request.



### **Key Responsibilities:**

- To review the interim management statements and the interim and annual consolidated financial statements before submission to the Board with a recommendation whether or not to approve;
- To keep under review the effectiveness of the Company's internal controls and risk management systems.
- Monitor the role and effectiveness of the internal audit function and ensure it is adequately resourced and has appropriate standing within the Company;
- Consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal and to discuss the nature and scope of the audit;
- To monitor the performance and quality of the external auditor's work and the external auditor's independence from the company and to recommend whether or not to award contracts to the auditor for non-audit work; and
- To review the arrangements in place by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Committee conducted a review of its own effectiveness and is satisfied that it has formal and transparent arrangements for considering corporate reporting, risk management, internal control principles and for maintaining an appropriate relationship with the Company's auditor.

The key activities undertaken by the Committee in discharging its duties during 2012 are set out below:

### **Financial Reporting**

During the year the Audit Committee reviewed the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and all formal announcements relating to the statements before submitting them to the Board of Directors with a recommendation to approve. These reviews focused on, but were not limited to, any changes in accounting policies and practices, major judgemental areas, significant adjustments resulting from the audit, the going concern assumption, compliance with accounting standards, legal, stock exchange requirements, true and fair view and the financial statements of the Company and Group.

### **Internal Control & Risk Management**

The Audit Committee received and considered reports from the external auditor on the control environment following the statutory audit. The Committee also assessed the effectiveness of the internal control framework in accordance with the Turnbull Guidance.

The Committee received and considered reports from the Head of Internal Audit based on the audits completed as part of the internal audit program and the results of the Kerry Control Reporting System.

The Committee reviewed the employee disclosure arrangements in place that allow employees to raise any concerns about possible improprieties in financial or other matters. The Committee is satisfied that appropriate actions will be taken in the event a matter arises. Any significant issues have been presented to and considered by the Audit Committee.

The Board, through the Audit Committee, completed an assessment of the Group's risk and control framework. The Risk Oversight Committee (ROC) and the Internal Audit function facilitated the Board in this assessment by preparing a consolidated Group risk register and control report for this review.

The ROC monitored the risk environment for the Group. Specifically, the Committee undertook or delegated the responsibility to identify and prioritise significant risks, evaluate the effectiveness of the risk mitigation activities and ensure gaps in effectiveness were addressed. Where necessary, the Audit Committee will convene to deal with any significant control weaknesses reported by internal audit and management.

Members of the ROC presented a selection of the key risks facing the Group to the Audit Committee. The presentations included the risk description, history of the risk, details of the mitigating controls and/or risk transfer arrangements, the risk tolerance in place and any actions required to improve the overall management of the risk. The risk presentation to the Audit Committee is a formal agenda item at each Committee meeting. The Chairman of the Audit Committee, after assessing the information presented by the ROC, provided updates and recommendations to the Board on the Group's risk management activities. During the year, the ROC presented the risk assessment process and the details of the top twenty risks to the Board of Directors.

### **Internal Audit**

Throughout the year the Committee monitored and reviewed the effectiveness of the internal audit function and received regular reports from the Head of Internal Audit. When assessing the work carried out by the internal audit function, the Committee considered delivery of the annual work programme, significant findings and managements' response on reports issued and the status of open non-compliances and the role of the function in the context of the Group risk management program. The Committee encouraged co-ordination between the internal and external auditors and ensured that the internal audit function was adequately resourced.

In the first quarter of 2012 the Head of Internal Audit conducted an assessment of the Internal Audit function's performance with the Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF) and presented the findings to the Committee. Following this review and in line with the Internal Audit function Quality Assessment Improvement Program (QAIP) the Audit Committee selected a third party to review the function against the IPPF and report back to the Committee.

## Report of the Directors

The Committee having reviewed a number of proposals selected the Chartered Institute of Internal Auditors (CIIA) to conduct an external evaluation of the Internal Audit function. Following the assessment the Committee received a report from the CIIA in October. The CIIA noted that in its opinion Kerry Group's internal audit (IA) service conformed to all of IPPF principles and points of practice.

### External Audit

The Audit Committee has ensured that the external auditor has safeguards in place to prevent the compromise of the auditor's independence and objectivity. The Audit Committee reviewed the external auditor's report on quality control procedures and on the safeguards which they have put in place to ensure their objectivity and independence in accordance with regulatory and professional requirements. The Audit Committee reviewed the terms of engagement and the external audit plan and considered in detail the findings from the audit of the annual financial statements. The Audit Committee also approved the remuneration for the external auditor.

The Audit Committee is responsible for the policies and procedures on the use of the external auditor for non-audit services. The Company's general policy is that Kerry Group plc's independent auditor, and its affiliates may be used for non-audit services that are not in conflict with the auditor's independence and where sound commercial reasons exist. These policies are kept under strict review to meet the objective of ensuring that the Group benefits in a cost effective manner from the knowledge and experience of its auditor whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity. In accordance with Group policy all non-audit services and fees were approved by the Audit Committee.

The Audit Committee also reviewed the external auditor's management letter and management's response.

## NOMINATION COMMITTEE REPORT

### Membership and Governance

The Committee is appointed by the Board and consists of not less than three members, the majority of whom will be independent Non-Executive Directors of the Company. During the year, the Nomination Committee comprised three independent Non-Executive Directors, Mr. Michael Dowling, Mr. James C. Kenny and was chaired by Mr. Denis Buckley. Mr. James C. Kenny was appointed to the Committee on 20 February 2012 following the death of Mr. Kevin Kelly.

The Committee met four times during the year and attendance at these meetings is detailed below:

Director	Attended	Eligible
Denis Buckley	4	4
Michael Dowling	4	4
James C. Kenny	3	3

The Chairman of the Committee shall be either the Chairman of the Board or an independent Non-Executive Director of the Company. The Chairman of the Board shall not chair the Committee when it is dealing with the matter of succession to the chairmanship. The Company Secretary acts as Secretary of the Nomination Committee.

The Board ensures that the membership of the Nomination Committee is refreshed in accordance with the Group's Corporate Governance Policy.

Only Committee members are entitled to attend Committee meetings and the quorum for meetings is two. The Nomination Committee may extend an invitation to other persons to attend meetings to be present for particular agenda items as required.

The Committee's effectiveness is reviewed on an annual basis as part of the Board evaluation process. Further details on this process can be found on page 51.

The Committee is authorised by the Board to obtain independent professional advice and to secure the attendance of advisors with relevant experience and expertise if it considers this necessary. During 2012, the Group used the advice and services of the London office of Heidrick and Struggles who specialise in Executive and Non-Executive board member recruitment services.

The main responsibilities of the Committee are set out in written terms of reference and are available from the Group's website [www.kerrygroup.com](http://www.kerrygroup.com) and upon request.

## Key Responsibilities:

In accordance with the terms of reference of the Committee, the primary responsibilities of the Committee include:

- Evaluating the balance of skills, experience, independence, knowledge and diversity of the Board to ensure optimum size and composition;
- Making recommendations to the Board on the appointment and re-appointment of both Executive and Non-Executive Directors;
- Making recommendations to the Board concerning membership of Board Committees in consultation with the Chairman of the Committees; and
- Succession planning for Directors and senior management positions.

## Nomination Process

There is a formal, rigorous and transparent procedure determining the nomination for appointment of new Directors to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Committee then makes recommendations to the Board concerning appointments of Executive or Non-Executive Directors, having considered the blend of skills, experience, independence and diversity deemed appropriate and reflecting the global nature of the Company.

Without setting specific goals for female representation, diversity on the Board will be considered when all appointments are being made. Diversity is also reviewed outside of the Board and consideration is also provided to diversity with regard to senior management positions across the Group. The Committee may use the services of external advisors when it deems it necessary.

The Nomination Committee also makes recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his/her specified term and the re-election of all Directors the subject of annual rotation. The terms and conditions of appointment of Non-Executive Directors are set out in formal letters of appointment, which are available for inspection at the Company's registered office during normal office hours and at the Annual General Meeting of the Company.

The principal activities of the Committee throughout the year are detailed below:

### *Board and Committee Membership*

The Committee completed a review of the Board and Board Committees during the year. This review involved an assessment of the skills and experience of the Board and its Committees to ensure the appropriate balance was in place to meet the needs of the Group. As a result of this review, committee changes were effected during 2012 and the changes are detailed in the relevant committee reports.

### *Succession Planning*

During the year the Committee reviewed succession planning across the Group and this will remain a key focus area for the Committee in the future and will be reviewed on an annual basis.

### *Re-appointment of Directors*

The Committee recommended to the Board that all Directors subject to and eligible for rotation be put forward for re-appointment at the Group's 2013 AGM.

### *Appointment of Non-Executive Directors*

Ms. Joan Garahy was appointed to the Board on 11 January 2012 and Mr. Philip Toomey was appointed to the Board on 20 February 2012. A diverse candidate profile was developed and a short list was presented to aid the Committee in making their recommendations. The Committee considered the skills, experience, independence and profile of these candidates prior to making its recommendations. In addition to the foregoing, the Committee also considered the financial and commercial experience required by the role and unanimously recommended that Ms. Joan Garahy and Mr. Philip Toomey be nominated for appointment. The Group used Heidrick and Struggles to advise on the appointment process.

Mr. Michael Teahan was appointed to the Board on 11 January 2012 and Mr. Sean Bugler was appointed on 13 December 2012. Both Mr. Teahan and Mr. Bugler are directors of KCC and were nominated for appointment by KCC following its own extensive election and selection process. Both Mr. Teahan and Mr. Bugler were nominated to replace existing KCC nominated Directors and as a result the Group's external advisers were not used for either of these appointments. The Committee considered the two candidates nominated and recommended both for appointment.

### *Appointment of Senior Independent Director*

The Nomination Committee, in line with the requirements of the UK Corporate Governance Code, nominated Mr. Philip Toomey for appointment as Senior Independent Director in 2012 and he was subsequently appointed to this position on 20 February 2012.

### *Board Refreshment Policy*

Appointments to the Board are for a three year period, subject to annual re-election, after consideration of annual performance evaluation and statutory provisions relating to the removal of a Director. The Board may appoint such Directors for a further term not exceeding three years and may consider an additional term if deemed appropriate. On the Board's behalf, the Chairman conducted a rigorous review of all Non-Executive Directors as part of the Board evaluation process, with additional emphasis on Directors who have served on the Board for more than six years, taking into account the need for progressive refreshment of the Board. The appointment of the Chairman is determined by the Board on an annual basis.

While the Board is currently of the opinion that the size and composition of the Board is optimal to address any challenges facing the Company, the number of Directors nominated for appointment to the Board by KCC will reduce from seven to four by 2014.

# Report of the Directors

## REMUNERATION COMMITTEE REPORT

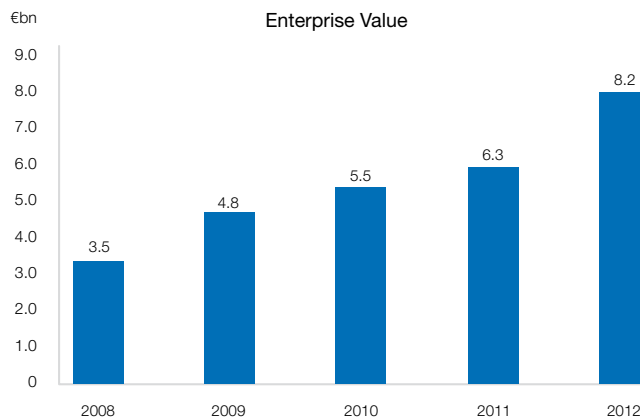
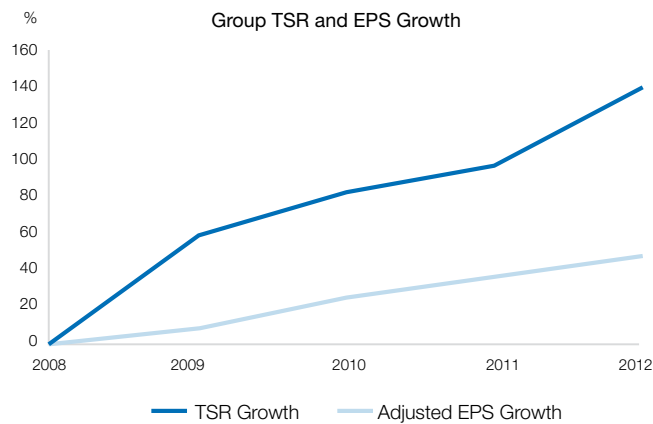
### Chairman's Letter

Dear Shareholder,

This is my inaugural report as Remuneration Committee Chairman and I am very pleased to report that remuneration to our Executive Directors and senior management reflects the strong performance for the year. Having reviewed the existing remuneration policy, which has been in place for the last six years, the Committee is proposing changes to further enhance the alignment with all stakeholders in the future.

### 2012 Financial Year

Performance for 2012 has again been strong with adjusted Earnings Per Share (EPS) growing by 11.3% and Total Shareholder Return (TSR) of 43%. This performance is based off a successful period of long term sustained growth in all our key metrics but notably over the last four years in TSR and EPS as illustrated in the graph below. This strong growth has meant that in terms of enterprise value, the company has increased in size by over 2.3 times from a value of €3.5bn in 2008 to €8.2bn at 31 December 2012. Kerry has been acquisitive as well as growing organically and is continuing its international expansion and operational efficiency through its '1 Kerry' strategy. The Group intends to continue to integrate acquisitions, gain efficiencies and expand volume and margin inherent in this '1 Kerry' Strategy. As Kerry sets stretching performance target this strong performance delivered on average 68% of the maximum annual bonus to Executive Directors.





### *2013 Future Remuneration Policy*

Future remuneration policy and design of remuneration plans need to reflect the current size and international presence of the Group and support future growth strategy. During the year Kerry engaged Towers Watson to review and benchmark the remuneration arrangements for Executive Directors and senior management. The review suggested a number of areas for consideration:

- firstly, the review indicated that on a total remuneration basis the Executive Directors' remuneration is well below the market across all of the five peer groups analysed. Our intention is to increase the long term element of pay, to further align participants with the long term strategy of the business and its sustainability;
- secondly, to consider potential changes to facilitate better alignment to our '1 Kerry Strategy', its key performance metrics, to encourage greater below board-level share alignment and to add flexibility as well as consistency between Executive Directors and senior management;
- thirdly, to reflect requirements in best practice and governance that encourage long term sustainability and ensure reduced pay for failure; and
- fourthly, to promote share ownership/retention.

We have engaged extensively with our largest institutional shareholders and the voting guidance services on the proposals for change in our remuneration policy and are pleased to have their support and approval for our principles. The Irish Association of Investment Managers (IAIM) was consulted and agreed that our changes reflected best practice, were in conformity with its guidelines on remuneration and provided their approval for our proposals. We acknowledge and listen to the views of our shareholders and have taken account of these in our Remuneration Policy and design of pay structures.

In respect of Executive Directors the principal points to note for 2013 are as follows:

#### *Basic Salary*

- The average increase for Executive Directors for 2013 will be 2.2%. Most Executive Directors will receive 2%, including the Chief Executive Officer (CEO). This level of increase is in line with other base pay increases of senior management below Board level and across the Group.

#### *Short Term Incentives*

- Deferral: We intend to introduce deferral into the bonus arrangements for 2013 to be paid in 2014. This arrangement will encourage an amount equal to 25% of the award to be held in Kerry shares which will be required to be held for two years after the bonus has been awarded. This change links the bonus payment with sustainability of results over the longer term and alignment with share price.

### *Long Term Incentives*

New Plan: A new plan will be put to shareholders for approval at the 2013 AGM, replacing the existing 2006 Long Term Incentive Plan under which there will be no further awards. Key features of the new plan will include:

- an increase to the level of maximum opportunity from 100% to 200% of basic salary. It is our intention to increase awards at all levels to reflect competitive levels of pay.
- amended performance metrics, 50% EPS to reflect our growth strategy and 30% relative TSR and 20% Return on Average Capital Employed to reflect returns to shareholders. Details of the calibration of each of these metrics, which continue to be stretching in line with our forecasts to the market, will be contained in the Chairman of the Board's letter to shareholders to be issued in conjunction with the notice of the AGM. These metrics better reflect the balance of the '1 Kerry' Strategy at a Group level.
- after vesting, a requirement to hold 50% of the net award for two years.
- further encouragement to hold beyond those two years, until stated share ownership requirements are met.
- facility for Kerry to offer 'Career' shares to individuals in critical roles equal to 100% of basic salary subject to meeting business and/or personal performance criteria over the period. It is envisaged that such performance period would not be less than three years and vesting of any such shares would not be until seven years from the date of a conditional award. These awards are for critical positions/projects with a high degree of risk. Executive Directors will be specifically excluded from participation in any career share award.

#### *Clawback*

- Clawback arrangements for misstatement or any serious wrong doing which will require a material restatement will be applied to both the short and long term incentives.

#### *Share Ownership Requirements*

- Increased requirements: An increase in share ownership requirements from 100% to 200% of basic salary for the CEO and such increase to be cascaded down to other senior executives.

We believe that these changes deliver the alignment to our '1 Kerry' business strategy and our shareholders. We are pleased that those shareholders we have spoken to are supportive of these changes.

Yours sincerely



Joan Garahy  
Chairman, Remuneration Committee

## Report of the Directors

### Membership and Governance

During the year, the Remuneration Committee comprised three independent Non-Executive Directors; Mr. James C. Kenny, Mr. Denis Buckley and was chaired by Ms. Joan Garahy.

The Committee met on four occasions during the year. Attendance at these meetings is detailed below.

Director	Attended	Eligible
Denis Buckley	4	4
Michael Dowling	1	1
Joan Garahy	3	3
James C. Kenny	3	3

The Remuneration Committee is responsible for determining the remuneration policy for the Chief Executive Officer and the Executive Directors and their remuneration on an annual basis. The Chief Executive Officer is invited to attend Remuneration Committee meetings, but does not attend Committee meetings when his own remuneration is discussed. The committee also has access to internal and external professional advice as required. Decisions are made within agreed reference terms, with meetings held as required. In considering the agenda the Committee gives due regard to the interests of shareholders and the performance of the Group.

The Remuneration Committee is authorised by the Board to appoint external advisors. Towers Watson has been appointed as the remuneration adviser to the Committee. Towers Watson has no other material connection to the Group.

The Remuneration Committee also completes an assessment of its own performance on an annual basis and reports any recommendations to the Board.

The main responsibilities of the Committee are set out in written terms of reference and are available from the Group's website [www.kerrygroup.com](http://www.kerrygroup.com) and upon request.

### Key Responsibilities:

In accordance with the terms of reference of the Committee, the primary responsibilities of the Committee include:

- To review the remuneration of the Chief Executive Officer and Chairman;
- To review the remuneration of Executive Directors and senior management;
- To review and approve incentive plan structures and targets;
- To agree the design of all share incentive plans for approval by the shareholders;
- To place before shareholders at each AGM, a Directors' Remuneration Report outlining the Company's policy and disclosures on remuneration; and
- To arrange where appropriate, external benchmarking of overall remuneration levels and the effectiveness of share options and long term incentive schemes.

The Committee meetings during 2012 principally addressed guidelines and outcomes on executive salaries, incentive targets, share and option awards, pension rights and long term performance plans.

During the fourth quarter of 2012, the Remuneration Committee engaged Towers Watson to review the Group's Executive Directors' remuneration arrangements and the competitiveness of the compensation provided to its Executive and Non-Executive team. A benchmarking exercise, the first since 2008, was completed as part of this review which compared the remuneration data of the Executive and Non-Executive Directors versus market trends in 3 different countries – Ireland, UK and US. The peer groups analysed included the ISEQ 10 (excluding financial services), UK General Industry, UK Food and Beverage, international ingredients peers and US General Industry.

While the benchmarking review indicated that basic salary and short term incentives were below that of the peer group, the Remuneration Committee have decided not to make any stepped increases to these components of remuneration but has noted the greater use of the concept of deferral of a proportion of bonus and also clawback arrangements on short term incentives. With regard to the Long Term Incentive Plan (LTIP), Kerry was significantly below market practice and the Remuneration Committee has undertaken to review the LTIP for 2013 with a view to a number of structural changes. These changes will align the Group with the market quantum for Ireland and the UK as well as take into account best practice features such as holding periods and clawback while also incorporating additional performance metrics and restrictions as recommended by the UK Corporate Governance Code and the Irish Corporate Governance Annex. Further information is provided on page 61 and in the Chairman's letter seeking approval for a new long term incentive plan – the 1 Kerry Long Term Incentive Plan 2013.

Following the review the Remuneration Committee is recommending a structural change to the LTIP which will increase the maximum potential award to 200% to ensure that LTIP opportunities remain competitive and commensurate with the increased size, complexity and international reach of the organisation. The Committee is also recommending the incorporation of an additional performance metric and the inclusion of new restrictive measures to be introduced in the scheme rules to align it with best practice requirements.

In line with increased opportunity, the Committee intends to increase the shareholding guidelines for executives proportionally, as well as introducing deferral in the short-term incentive plan, with the aim of encouraging greater shareholding amongst the executives.

The Remuneration Committee has engaged with its shareholders and governance agencies during the development of these remuneration proposals. In particular, as an Irish headquartered company, Kerry sought the views of the Irish Association of Investment Managers who are satisfied that the principles for the proposals relating to changes in remuneration and specifically the adoption of the new '1 Kerry Long Term Incentive Plan 2013' are appropriate.

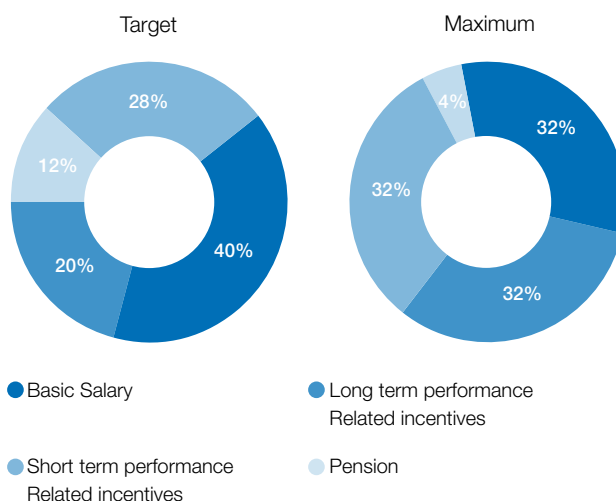
The statements below relating to our policy refer to the existing arrangements, more details of the proposals and specific arrangements are referred to in the Chairman's letter for the AGM.

## Remuneration Policy

The Group's Executive Director remuneration policy is to ensure that executive remuneration properly reflects their duties and responsibilities, and is sufficient to attract, retain and motivate people of the highest quality internationally. Remuneration includes performance related elements designed to align Directors' interests with those of shareholders and to encourage performance at the highest levels in line with the Group's strategy. In setting remuneration levels, the Committee has regard to comparable companies in terms of both the size of the Group and the geographical spread and complexity of its business. It also considers pay and employment conditions elsewhere in the Group.

The Committee also considers the level of pay in terms of the balance between the fixed and variable elements of remuneration. Fixed elements of remuneration are defined as basic salary and pension benefits with the variable elements being performance related incentives with both short and long term components.

A high proportion of Executive Directors' potential remuneration is based on short term and long term performance related incentive programmes. By incorporating these elements, the Remuneration Committee believes that the interest and risk appetite of the Executive Directors is properly aligned with the interests of the shareholders and other stakeholders. The following diagrams shows the target and maximum composition balance (average of all Executive Directors) between the fixed and variable remuneration components.



## Report of the Directors

As outlined below there are both fixed and variable components of Executive Directors' remuneration. Executive Directors' remuneration for 2012 comprises the following:

Type of Remuneration	Purpose	Operation	Opportunity	Performance Metrics	Changes and Comments
Basic salary	Reflects the value of the individual, their skills and experience	This is referenced to job responsibility and internal/ external market data	N/A	N/A	Directors' salaries in the same role have increased by 1.5% (in local currency)*  For 2013 the average increase will be 2.2%
Short Term Performance related incentives	Incentivise achievement of key performance metrics on an annual basis	Achievement of pre-determined earnings growth and other performance targets set by the Remuneration Committee	Maximum opportunity 90% - 100% of basic salary (70% of opportunity for on-target performance)	Group adjusted Earnings Per Share; Business Operating Profit; and Business Operating Cash Flow	No change (2012)  Review underway and changes proposed as detailed in this report (2013)
Long Term Performance related incentives	Retention of key management and incentivisation of sustained performance against key metrics over a longer period of time	The awards vest depending on a number of separate performance metrics being met over a three year performance period  Conditional awards over shares or share options in the Group	Maximum opportunity 90% - 100% of basic salary (50% of opportunity for on-target performance)	Total Shareholder Return  Adjusted Earnings Per Share	No change (2012)  Review underway and changes proposed subject to shareholder approval as outlined in this report and detailed in the Chairman's letter (2013)

\*Directors' basic salaries increased by 1.5% in local currency except for Mr. Gerry Behan whose salary was increased by 13% to reflect the change in responsibility from Regional CEO to Global Kerry Ingredients & Flavours CEO.



### 1. Basic Salary

The Remuneration Committee sets the basic salary and other benefits of each Executive Director. The basic salary for Executive Directors is determined by the Committee after taking into account a number of elements including the Directors' performance, experience and level of responsibility. The Committee also considers the pay conditions across the Group when determining any basic salary adjustments.

The Remuneration Committee decided to increase basic salaries in 2012 by a nominal 1.5% on average (in local currency) in deference to inflation.

### 2. Short Term Performance Related Incentive Awards

Executive Directors participate in performance related annual bonus schemes, which are based on achieving predetermined earnings growth and other targets set by the Remuneration Committee. The performance related incentive awards are designed to incentivise the achievement of short term goals beneficial to the Group and aligned with the delivery of the Group's strategy. This ensures alignment with the interests of the Group's shareholders. The structure of the scheme is reviewed regularly to ensure that it develops in line with the Group's strategic goals.

The targets set for 2012 were a combination of a number of key performance metrics;

- Group adjusted Earnings Per Share (EPS);
- Business Operating Profit; and
- Business Operating Cash Flow.

These are considered to be key metrics specific to the Group as they align with Group objectives while also ensuring the long term operational and financial stability of the Group. Adjusted EPS growth was chosen as a key performance metric as it encompasses all the components of growth that are important to all the Group's stakeholders. Business Operating Profit and Business Operating Cash Flow reflect the operational performance of the business incorporating key metrics of sales growth, margin improvement and cash flow delivery. The maximum annual award which could have been achieved by Executive Directors for 2012 was between 90% and 100% of basic salary.

For 2012, the Group adjusted EPS target was set at 10% annual growth in excess of the 2011 adjusted EPS. The other targets are aligned by individual responsibilities to this adjusted EPS target. During 2012 the Group realised 11.3% growth in adjusted EPS. As the Business Operating Profit and Business Operating Cash Flows are internal metrics the results of these metrics used for the short term incentive plan are not disclosed but in 2012 Kerry achieved performance in line with the payout target set by the Remuneration Committee leading to annual bonus payouts to Executive Directors of on average 68% of the maximum opportunity.

### 3. Long Term Performance Related Incentives

The Group operates a Long Term Incentive Plan (LTIP), the terms and conditions of which were approved by shareholders in 2006. The Remuneration Committee approves the terms, conditions and allocation of conditional awards under the Group's LTIP to Executive Directors, the Company Secretary and senior executives. Under this plan, senior executives (including Executive Directors) are invited to participate in conditional awards over shares or share options in the Company.

Conditional awards were made in 2006 and 2009 and these awards partially vested in September 2009 and June 2012. Conditional awards have been made in March 2010, 2011 and April 2012 and these will potentially vest or partially vest three years after each award date if the predetermined performance targets are achieved. The maximum award that can be made to an individual under the LTIP over a 12 month period is equivalent to 90% - 100% of basic salary for that period.

An award may lapse if a participant ceases to be employed within the Group before the vesting date.

The market price of the shares on the date of each award outlined above is disclosed in note 28 to the financial statements.

The proportion of each conditional award which vests will depend on the adjusted Earnings Per Share (EPS) and Total Shareholder Return (TSR) performance of the Group during the relevant three year performance period.

#### EPS Performance Test

Up to 50% of the award vests according to the Group's adjusted EPS growth over the performance period compared with a target adjusted by the increase in the Irish Consumer Price Index (CPI) over the same period.

This measurement will be determined by reference to the growth in Kerry Group's adjusted EPS in each of the three financial years in the performance period in comparison with the increase in the CPI in accordance with the following table:

Kerry's EPS Growth over a 3 year Performance Period	Percentage of the Award which Vests
Below CPI +15 percentage points (5% p.a.)	0%
CPI +15 percentage points (5% p.a.)	50%
Between CPI +15% and CPI +22.5 percentage points (7.5% p.a.)	Straight line between 50% and 100%
Greater than or equal to CPI +22.5 percentage points (7.5% p.a.)	100%

## Report of the Directors

The growth in Kerry's adjusted EPS will be calculated by reference to the adjusted EPS of the financial year immediately preceding the start of the performance period and the adjusted EPS of the last financial year of the performance period. The increase in the CPI shall be calculated by reference to the last figure published in the financial year immediately preceding the start of the performance period and the last figure published in the last financial year of the performance period.

Should the Committee consider it appropriate, following any change in Kerry's accounting policies, accounting period or method of calculating adjusted EPS, it may make such adjustments as are necessary to put the calculations of adjusted EPS for the relevant accounting periods on a broadly comparable basis, after consulting the Irish Association of Investment Managers.

The outcome of the measurement of the adjusted EPS condition in relation to the 2010 awards was that the CPI plus 22.5% condition was exceeded.

### *TSR Performance Test*

The remaining 50% of the award vests according to the Group's TSR performance over the period measured against the TSR performance of a peer group of listed companies over the same 3 year performance period. The peer group consists of Kerry and the following companies:

Associated British Foods	Glanbia	McCormick & Co.
CSM	Greencore	Premier Foods
Danone	H.J. Heinz	Sensient Technologies
General Mills	IFF	Tate & Lyle
Givaudan	Kellogg	Unilever

When assessing whether the performance hurdle has been met, this measurement will be determined by reference to the ranking of Kerry's TSR during each of the three financial years identified as the performance period, in comparison with the TSR performance of the companies in the peer group.

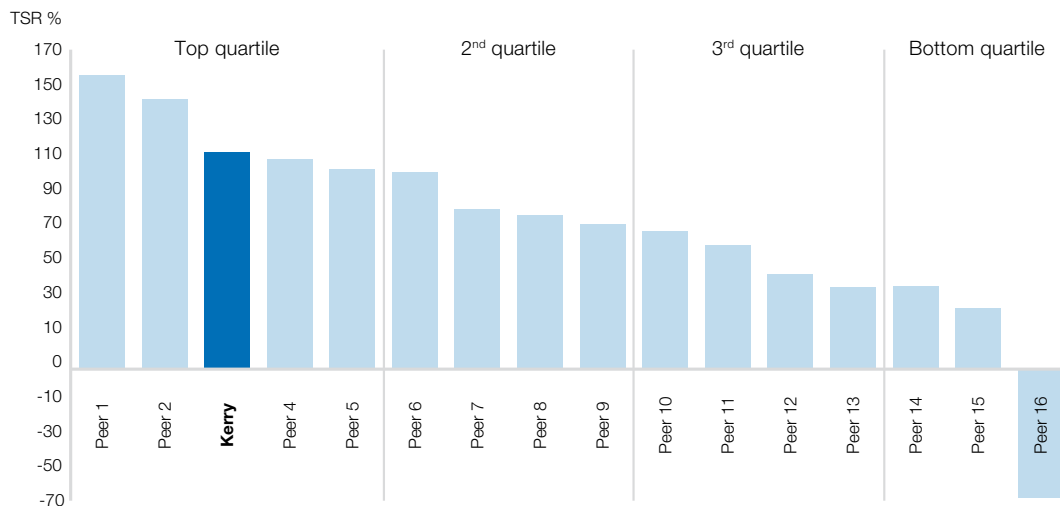
The awards vest in line with the table:

Position of Kerry in the Peer Group	Percentage of the Award which Vests
Below median	0%
Median	30%
Between median and 75 <sup>th</sup> percentile	Straight line between 30% and 100%
Greater than 75 <sup>th</sup> percentile	100%

The Committee may make adjustments to the peer group where necessary to take account of mergers, acquisitions, demergers or a company ceasing to trade provided that, as a result, this TSR performance condition will be neither materially easier nor more difficult to achieve. TSR for each company in the peer group shall be calculated on such basis as the Committee, acting reasonably, may specify from time to time, provided that as far as practicable the same method of calculation shall be used for every company in the peer group. The Committee may request an independent firm of consultants to carry out the calculation of TSR for each company in the peer group.

The performance graph below shows Kerry's TSR compared to the peer companies over the three year performance period from 1 January 2010 to 31 December 2012 for the LTIP awards which were issued in 2010. These awards have a vesting date on or before 30 June 2013.

3 Year TSR: Kerry & Comparator Group 1 January 2010 - 31 December 2012



Taking into account the TSR performance of the Group versus the peer group, as well as EPS performance 100% of the awards granted under the 2010 LTIP will potentially vest in 2013.

Long Term Incentive Plan	TSR Performance (50% of award)	Actual Vesting of TSR Award	EPS Performance (50% of award)	Actual Vesting of EPS Award	Total % Vested
2010	87 <sup>th</sup> percentile	100%	38% growth	100%	100%

#### 4. Pensions and Other Benefits

The Executive Directors participate in the Group's pension schemes for the wider employee population in the country of their primary residence. A review of pension provisions for the Executive Directors impacted by the lifetime earnings cap in Ireland began during 2011 and was concluded during 2012. The Irish resident Directors have thus been offered a contribution (on a cost neutral basis to the Company) to an after tax savings scheme as an option. Both Directors affected have taken up this option.

Other benefits relate primarily to the use of a company car/car allowance.

# Report of the Directors

## Shareholding Requirement

Share ownership is a key component of the Group's Remuneration Policy as it helps maintain an alignment of the interests of the shareholders and the Executive Directors. To help maintain commitment over the long term, Executive Directors are expected to build and to hold shares in the Company to a level not less than 100% of their most recent annual LTIP award over a pre-defined period of time. All Executive Directors exceeded this requirement at year end.

## Service Contracts

The Group does not have any service contracts with its Directors which extend beyond one year.

## Non-Executive Directors' Remuneration

Non-Executive Directors' fees, which are determined by the Board as a whole, fairly reflect the responsibilities and time spent by the Directors on the Group's affairs. In determining the fees, which are set within the limits approved by shareholders, consideration is given to both the complexity of the Group and the level of fees paid to Non-Executive Directors in comparable companies. Periodically, the Chairman of the Remuneration Committee will review Non-Executive Directors' fees, consult with the Committee and present any recommendations to the full Board for approval. Non-Executive Directors do not participate in the Group's incentive plans, pension arrangements or other elements of remuneration provided to the Executive Directors.

## 2012 Directors' Remuneration

Disclosures regarding Directors' remuneration have been drawn up on an individual Director basis in accordance with the requirements of the Irish Corporate Governance Annex, the UK Corporate Governance Code, the Irish Stock Exchange and the UK Listing Authority:

### (a) Executive Directors' Remuneration

	Basic Salaries	Performance Related	Benefits-in-kind	Pensions	Total	Total
	2012	2012	2012	2012	2012	2011
	€'000	€'000	€'000	€'000	€'000	€'000
Stan McCarthy <sup>1</sup>	979	722	65	263	2,029	1,807
Brian Mehigan <sup>2</sup>	492	327	22	139	980	958
Flor Healy <sup>2</sup>	525	202	13	118	858	750
Gerry Behan <sup>1</sup>	605	522	38	170	1,335	1,083
	2,601	1,773	138	690	5,202	4,598

**Note 1:** Reported numbers are impacted by the US dollar to euro exchange rate. Basic salaries for Stan McCarthy and Gerry Behan for 2012 were \$1,253.1k (2011: \$1,234.8k) and \$774.4k (2011: \$681.8k) respectively. Total remuneration for Stan McCarthy and Gerry Behan for 2012 amounted to \$2,597.1k (2011: \$2,529.8k) and \$1,708.8k (2011: \$1,516.2k) respectively.

**Note 2:** The Irish Finance Act 2011 established a cap on pension provision by introducing a penal tax charge on any benefits exceeding €2.3m in value. In response to this the Remuneration Committee decided to offer Executive Directors who are members of the Irish pension scheme the option to have contributions made to a savings plan in lieu of further pension accrual, on an overall cost neutral basis to the Company. For 2012, Brian Mehigan and Flor Healy have opted for the alternative savings plan and the figures included above reflect this.



*(b) Non-Executive Directors' Remuneration*

	Fees 2012 €	Fees 2011 €
Kieran Breen	38,000	38,093
Denis Buckley	209,000	209,000
Sean Bugler	3,167	-
Denis Carroll	54,000	53,895
Michael Dowling	110,000	110,000
Patrick G. Flahive	38,000	37,220
Michael J. Fleming	-	34,927
Joan Garahy	82,167	-
Noel Greene	34,833	38,093
Kevin Kelly	-	110,000
James C. Kenny	88,667	42,000
Gerard O'Hanlon	38,000	38,093
Michael J. Sullivan	-	30,417
Michael Teahan	38,000	-
Philip Toomey	73,833	-
Denis Wallis	54,000	53,895
	<b>861,667</b>	<b>795,633</b>

Non-Executive Directors' remuneration consists of fees only. The total remuneration for all Directors in 2012 amounted to €6,063,667 (2011: €5,393,633).

**Directors' and Company Secretary's interests in Long Term Incentive Plan**

The following table shows the Executive Directors' and Company Secretary's interests under the LTIP.

Director	Conditional Awards at 1 January 2012	Share Awards vested during the year	Share Option Awards vested during the year	Conditional Awards made during the year	Conditional Awards at 31 December 2012
Stan McCarthy	128,887	55,441	-	28,390	101,836
Brian Mehigan	64,913	-	28,336	13,245	49,822
Flor Healy	70,480	-	30,800	14,126	53,806
Gerry Behan	69,522	30,800	-	17,552	56,274
<b>Company Secretary</b>					
Brian Durran	19,823	-	8,230	4,241	15,834

Conditional awards at 1 January 2012 relate to awards made in 2009, 2010 and 2011 which have a three year performance period. The 2009 awards vested on 30 June 2012. The 2010 and 2011 awards will potentially vest on or before 30 June 2013 and 30 June 2014 respectively. The market price of the shares on the date of each award is disclosed in note 28 to the financial statements.

## Report of the Directors

Conditional awards made in 2012 have a three year performance period and will potentially vest on or before 30 April 2015.

The following table shows the share options which are held by the Executive Directors under the LTIP.

	Share Options outstanding at 1 January 2012	Share Options exercised during the year	Share Options vested during the year	Share Options outstanding at 31 December 2012	Exercise Price per share
<b>Director</b>					
Brian Mehigan	4,400	-	28,336	32,736	€0.125
Flor Healy	4,400	-	30,800	35,200	€0.125
<b>Company Secretary</b>					
Brian Durran	-	-	8,230	8,230	€0.125

Share options which vested in September 2009 under the LTIP are exercisable up to September 2016. Share options which vested in March 2012 under the LTIP are exercisable up to March 2019.

### Payments to Former Directors

There were no payments made to former Directors in 2012 (2011: €nil).

### Directors' Pensions

The pension benefits of each of the Executive Directors during the year were as follows:

	Accrued benefits on leaving service at end of year		Transfer value of increase in accumulated accrued benefits €'000
	Increase during year (excluding inflation) €'000	Accumulated total at end of year €'000	
Stan McCarthy	52	713	599
Brian Mehigan <sup>1</sup>	-	215	-
Flor Healy <sup>1</sup>	-	239	-
Gerry Behan	16	297	67
<b>2012</b>	<b>68</b>	<b>1,464</b>	<b>666</b>
2011	154	1,429	852

**Note 1:** For Brian Mehigan and Flor Healy, pension accrual has ceased from 2011, driven by the impact of the lifetime cap. Instead, contributions are paid to a savings plan from this date. This is shown as retirement savings in the Executive Directors' remuneration.

## Directors' and Company Secretary's Interests

There has not been any contract or arrangement with the Company or any subsidiary during the year in which a Director of the Company was materially interested and which was significant in relation to the Group's business.

The interests of the Directors and Company Secretary of the Company and their spouses and minor children in the share capital of the Company, all of which were beneficial, were as follows:

	31 December 2012 Number	31 December 2011 Number
<b>Director</b>		
Gerry Behan	25,913	8,913
Kieran Breen	8,191	8,191
Denis Buckley	178,592	178,592
Sean Bugler	3,307	-
Denis Carroll	5,428	5,428
Michael Dowling	4,200	4,200
Patrick G. Flahive	35,696	35,696
Joan Garahy	-	-
Flor Healy	53,994	53,994
James C. Kenny	-	-
Stan McCarthy	84,841	40,679
Brian Mehigan	40,334	40,334
Gerard O'Hanlon	41,952	49,231
Michael Teahan	2,257	-
Philip Toomey	-	-
Denis Wallis	4,133	4,133
<b>Company Secretary</b>		
Brian Durran	13,000	13,000

The above holdings in ordinary shares have not changed between 31 December 2012 and the date of this report.

## Subsidiaries

The principal subsidiaries are listed in note 36 to the financial statements.

## Auditors

The Auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with section 160(2) of the Companies Act, 1963.

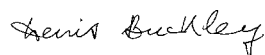
## Retirement Benefits

Information in relation to the Group's retirement benefit schemes is given in note 25 to the financial statements.

## Taxation

So far as the Directors are aware, the Company is not a close company within the definition of the Taxes Consolidation Act, 1997. There has been no change in this respect since 31 December 2012.

Signed on behalf of the Board on 25 February 2013



Denis Buckley,  
Chairman



Stan McCarthy,  
Chief Executive Officer

# Independent Auditor's Report to the Members of Kerry Group plc

We have audited the financial statements of Kerry Group Plc for the year ended 31 December 2012 which comprise the Group Financial Statements: the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity, the Parent Company Financial Statements: the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Changes in Equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

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

## **Respective Responsibilities of Directors and Auditors**

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on Financial Statements

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the parent company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Matters on which we are required to report by the Companies Acts 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the parent company.
- The company balance sheet is in agreement with the books of account.
- In our opinion the information given in the Report of the Directors is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the parent company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December

2012 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent company.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Under the Listing Rules of the Irish Stock Exchange we are required to review:

- the directors' statement in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- the six specified elements of the disclosures in the report to shareholders by the Board on directors' remuneration.

Kevin Sheehan  
For and on behalf of Deloitte & Touche  
Chartered Accountants and Statutory Audit Firm  
Dublin

25 February 2013



## Consolidated Income Statement

for the year ended 31 December 2012

	Notes	Before Non-Trading Items 2012 €'m	Non-Trading Items 2012 €'m	Total 2012 €'m	2011 €'m
Continuing operations					
Revenue	2	5,848.3	–	5,848.3	5,302.2
Trading profit	2/3	554.7	–	554.7	500.5
Intangible asset amortisation	12	(23.4)	–	(23.4)	(19.3)
Acquisition integration and restructuring costs	5	–	(120.2)	(120.2)	(10.7)
(Loss)/profit on disposal of businesses	5	–	(35.3)	(35.3)	17.3
Loss on disposal of non-current assets	5	–	(2.5)	(2.5)	(8.4)
Operating profit	3	531.3	(158.0)	373.3	479.4
Finance income	6	1.1	–	1.1	0.9
Finance costs	6	(50.3)	–	(50.3)	(46.9)
Profit before taxation		482.1	(158.0)	324.1	433.4
Income taxes	7	(79.6)	22.5	(57.1)	(72.7)
Profit after taxation and attributable to owners of the parent		402.5	(135.5)	267.0	360.7
Earnings per A ordinary share				Cent	Cent
– basic	9			152.0	205.5
– diluted	9			151.9	205.4

The financial statements were approved by the Board of Directors on 25 February 2013 and signed on its behalf by:

Denis Buckley, Chairman

Stan McCarthy, Chief Executive Officer

## Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2012

	Notes	2012 €'m	2011 €'m
Profit after taxation and attributable to owners of the parent		267.0	360.7
<b>Other comprehensive (expense)/income:</b>			
Fair value movements on cash flow hedges	23	(0.8)	(7.1)
Exchange difference on translation of foreign operations		(0.3)	11.5
Actuarial losses on defined benefit post-retirement schemes	25	(53.5)	(112.5)
Deferred tax on items taken directly to reserves	16	10.5	18.6
<b>Net expense recognised directly in other comprehensive income</b>		<b>(44.1)</b>	<b>(89.5)</b>
<b>Reclassification to profit or loss from equity:</b>			
Cash flow hedges	23	4.9	(2.5)
<b>Total comprehensive income</b>		<b>227.8</b>	<b>268.7</b>

## Consolidated Balance Sheet

as at 31 December 2012

	Notes	2012 €'m	2011 €'m
<b>Non-current assets</b>			
Property, plant and equipment	11	1,205.6	1,208.7
Intangible assets	12	2,459.9	2,294.6
Financial asset investments	13	18.8	19.3
Non-current financial instruments	22	86.1	84.0
Deferred tax assets	16	10.0	10.2
		<b>3,780.4</b>	<b>3,616.8</b>
<b>Current assets</b>			
Inventories	15	637.3	658.5
Trade and other receivables	18	706.1	709.8
Cash at bank and in hand	22	215.4	237.9
Other current financial instruments	22	10.0	1.4
Assets classified as held for sale	17	0.5	5.6
		<b>1,569.3</b>	<b>1,613.2</b>
<b>Total assets</b>		<b>5,349.7</b>	<b>5,230.0</b>
<b>Current liabilities</b>			
Trade and other payables	19	1,149.8	1,136.9
Borrowings and overdrafts	22	212.7	39.0
Other current financial instruments	22	1.8	16.5
Tax liabilities		32.7	25.2
Provisions	24	42.3	26.1
Deferred income	20	2.3	2.3
		<b>1,441.6</b>	<b>1,246.0</b>
<b>Non-current liabilities</b>			
Borrowings	22	1,287.4	1,559.9
Other non-current financial instruments	22	11.9	10.7
Retirement benefits obligation	25	308.8	277.5
Other non-current liabilities	21	60.1	63.1
Deferred tax liabilities	16	163.9	173.0
Provisions	24	37.7	33.1
Deferred income	20	21.1	21.4
		<b>1,890.9</b>	<b>2,138.7</b>
<b>Total liabilities</b>		<b>3,332.5</b>	<b>3,384.7</b>
<b>Net assets</b>		<b>2,017.2</b>	<b>1,845.3</b>
<b>Issued capital and reserves attributable to owners of the parent</b>			
Share capital	27	21.9	21.9
Share premium		398.7	398.7
Other reserves		(88.1)	(94.3)
Retained earnings		1,684.7	1,519.0
<b>Shareholders' equity</b>		<b>2,017.2</b>	<b>1,845.3</b>

The financial statements were approved by the Board of Directors on 25 February 2013 and signed on its behalf by:

Denis Buckley, Chairman

Stan McCarthy, Chief Executive Officer

## Company Balance Sheet

as at 31 December 2012

	Notes	2012 €'m	2011 €'m
<b>Non-current assets</b>			
Property, plant and equipment	11	1.3	1.4
Investment in subsidiaries	14	638.7	638.7
		640.0	640.1
<b>Current assets</b>			
Cash at bank and in hand	22	0.1	–
		0.1	–
<b>Total assets</b>		<b>640.1</b>	<b>640.1</b>
<b>Current liabilities</b>			
Trade and other payables	19	11.8	12.9
Borrowings and overdrafts	22	–	1.1
		11.8	14.0
<b>Non-current liabilities</b>			
Other non-current liabilities	21	100.0	135.2
Deferred income	20	0.2	0.2
		100.2	135.4
<b>Total liabilities</b>		<b>112.0</b>	<b>149.4</b>
<b>Net assets</b>		<b>528.1</b>	<b>490.7</b>
<b>Issued capital and reserves</b>			
Share capital	27	21.9	21.9
Share premium		398.7	398.7
Other reserves		9.8	7.4
Retained earnings		97.7	62.7
<b>Shareholders' equity</b>		<b>528.1</b>	<b>490.7</b>

The financial statements were approved by the Board of Directors on 25 February 2013 and signed on its behalf by:

Denis Buckley, Chairman

Stan McCarthy, Chief Executive Officer

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Total €'m
<b>Group:</b>						
At 1 January 2011		21.9	398.7	(98.2)	1,304.6	1,627.0
Total comprehensive income		–	–	1.9	266.8	268.7
Dividends paid	10	–	–	–	(52.4)	(52.4)
Long term incentive plan expense	28	–	–	2.0	–	2.0
Shares issued during year	27	–	–	–	–	–
At 31 December 2011		21.9	398.7	(94.3)	1,519.0	1,845.3
Total comprehensive income		–	–	3.8	224.0	227.8
Dividends paid	10	–	–	–	(58.3)	(58.3)
Long term incentive plan expense	28	–	–	2.4	–	2.4
Shares issued during year	27	–	–	–	–	–
At 31 December 2012		21.9	398.7	(88.1)	1,684.7	2,017.2

Other Reserves comprise the following:

	Notes	Capital Redemption Reserve €'m	Capital Conversion Reserve Fund €'m	Long Term Incentive Plan Reserve €'m	Translation Reserve €'m	Hedging Reserve €'m	Total €'m
At 1 January 2011		1.7	0.3	3.4	(100.7)	(2.9)	(98.2)
Total comprehensive income/(expense)		–	–	–	11.5	(9.6)	1.9
Long term incentive plan expense	28	–	–	2.0	–	–	2.0
At 31 December 2011		1.7	0.3	5.4	(89.2)	(12.5)	(94.3)
Total comprehensive (expense)/income		–	–	–	(0.3)	4.1	3.8
Long term incentive plan expense	28	–	–	2.4	–	–	2.4
At 31 December 2012		1.7	0.3	7.8	(89.5)	(8.4)	(88.1)

The nature and purpose of each reserve within shareholders' equity are described in note 35.



## Company Statement of Changes in Equity

for the year ended 31 December 2012

	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Total €'m
<b>Company:</b>						
At 1 January 2011		21.9	398.7	5.4	87.7	513.7
Total comprehensive income	8	–	–	–	27.4	27.4
Dividends paid	10	–	–	–	(52.4)	(52.4)
Long term incentive plan expense	28	–	–	2.0	–	2.0
Shares issued during year	27	–	–	–	–	–
At 31 December 2011		21.9	398.7	7.4	62.7	490.7
Total comprehensive income	8	–	–	–	93.3	93.3
Dividends paid	10	–	–	–	(58.3)	(58.3)
Long term incentive plan expense	28	–	–	2.4	–	2.4
Shares issued during year	27	–	–	–	–	–
At 31 December 2012		21.9	398.7	9.8	97.7	528.1

Other Reserves comprise the following:

	Notes	Capital Redemption Reserve €'m	Capital Conversion Reserve Fund €'m	Long Term Incentive Plan Reserve €'m	Total €'m
At 1 January 2011		1.7	0.3	3.4	5.4
Long term incentive plan expense	28	–	–	2.0	2.0
At 31 December 2011		1.7	0.3	5.4	7.4
Long term incentive plan expense	28	–	–	2.4	2.4
At 31 December 2012		1.7	0.3	7.8	9.8

The nature and purpose of each reserve within shareholders' equity are described in note 35.

## Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 €'m	2011 €'m
<b>Operating activities</b>			
Trading profit	29	554.7	500.5
<i>Adjustments for:</i>			
Depreciation (net)		114.3	100.8
Change in working capital	29	(6.2)	(3.8)
Pension contributions paid less pension expense		(25.2)	(34.0)
Expenditure on acquisition integration costs		(40.5)	(13.9)
Expenditure on restructuring programme		(30.1)	–
Exchange translation adjustment		(1.8)	(2.8)
<b>Cash generated from operations</b>		<b>565.2</b>	<b>546.8</b>
Income taxes paid		(53.5)	(75.9)
Finance income received		1.1	0.9
Finance costs paid		(49.7)	(47.5)
<b>Net cash from operating activities</b>		<b>463.1</b>	<b>424.3</b>
<b>Investing activities</b>			
Purchase of non-current assets	29	(167.5)	(174.0)
Proceeds from the sale of property, plant and equipment		8.3	9.9
Capital grants received	20	3.2	1.9
Purchase of subsidiary undertakings (net of cash acquired)	30	(174.7)	(361.6)
(Payments)/proceeds due to disposal of businesses (net of related tax)		(2.1)	5.6
Payments relating to previous acquisitions		(5.0)	(3.2)
<b>Net cash used in investing activities</b>		<b>(337.8)</b>	<b>(521.4)</b>
<b>Financing activities</b>			
Dividends paid	10	(58.3)	(52.4)
Issue of share capital	27	–	–
Net movement on bank borrowings	29	(88.6)	233.0
<b>Net cash movement due to financing activities</b>		<b>(146.9)</b>	<b>180.6</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(21.6)</b>	<b>83.5</b>
Cash and cash equivalents at beginning of year		237.0	152.1
Exchange translation adjustment on cash and cash equivalents		–	1.4
<b>Cash and cash equivalents at end of year</b>	29	<b>215.4</b>	<b>237.0</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
Net (decrease)/increase in cash and cash equivalents		(21.6)	83.5
Cash outflow/(inflow) from debt financing		88.6	(233.0)
Changes in net debt resulting from cash flows		67.0	(149.5)
Fair value movement on interest rate swaps recognised in shareholders' equity		(1.4)	(4.6)
Exchange translation adjustment on net debt		11.3	(21.7)
Movement in net debt in the year		76.9	(175.8)
Net debt at beginning of year		(1,287.7)	(1,111.9)
<b>Net debt at end of year</b>	22	<b>(1,210.8)</b>	<b>(1,287.7)</b>

## Company Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 €'m	2011 €'m
<b>Operating activities</b>			
Trading profit	29	92.1	26.7
<i>Adjustments for:</i>			
Depreciation (net)		0.1	0.2
Change in working capital	29	(32.7)	25.0
<b>Net cash from operating activities</b>		<b>59.5</b>	<b>51.9</b>
<b>Investing activities</b>			
Payments relating to previous acquisitions		–	(0.1)
<b>Net cash used in investing activities</b>		<b>–</b>	<b>(0.1)</b>
<b>Financing activities</b>			
Dividends paid	10	(58.3)	(52.4)
Issue of share capital	27	–	–
<b>Net cash movement due to financing activities</b>		<b>(58.3)</b>	<b>(52.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1.2</b>	<b>(0.6)</b>
Cash and cash equivalents at beginning of year	29	(1.1)	(0.5)
<b>Cash and cash equivalents at end of year</b>	<b>29</b>	<b>0.1</b>	<b>(1.1)</b>

# Notes to the Financial Statements

for the year ended 31 December 2012

## 1. Statement of Accounting Policies

### *General information*

Kerry Group plc is a public limited company incorporated in the Republic of Ireland. The registered office address is Prince's Street, Tralee, Co. Kerry. The principal activities of the Company and its subsidiaries are described in the Business Review.

### *Basis of preparation*

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), applicable law and the Listing Rules of the Irish Stock Exchange and the UK Listing Authority. The Group's financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The Parent Company financial statements are prepared using accounting policies consistent with the accounting policies applied to the consolidated financial statements by the Group.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities (including derivative financial instruments), which are held at fair value.

The consolidated financial statements have been prepared on a going concern basis and further details can be found on page 52 of the Report of the Directors.

The consolidated financial statements contained herein are presented in Euro, which is the functional currency of the Parent Company, Kerry Group plc. The functional currencies of the Group's main subsidiaries are Euro, US Dollar and Sterling.

IFRS does not define certain Income Statement headings. For clarity, the following are the definitions as applied by the Group:

- 'Trading profit' refers to the operating profit generated by the businesses before intangible asset amortisation and gains or losses generated from non-trading items. Trading Profit represents operating profit before specific items that are considered to hinder comparison of the trading performance of the Group's businesses, either year-on-year or with other businesses.
- 'Non-trading items' refers to gains or losses on the disposal or acquisition of businesses, disposal of non-current assets and material acquisition integration and restructuring costs. It is determined by management that each of these items relate to events or circumstances that are non-recurring in nature.
- 'Operating profit' is profit before income taxes, finance income and finance costs.

The Group makes this distinction to give a better understanding of the financial performance of the business.

For clarity, a number of specific terms in operating profit (note 3) are explained as follows:

- 'Other external charges' primarily refers to selling, general and administrative expenses.
- 'Other operating charges' primarily refers to manufacturing and warehousing costs.

### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries), all of which prepare financial statements up to 31 December. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of their acquisition or up to the effective date of their disposal. All inter-group transactions and balances are eliminated on consolidation.

## 1. Statement of Accounting Policies (continued)

### Revenue

Revenue represents the fair value of the consideration received or receivable, for ingredients and flavours applications and consumer foods branded and non-branded products, from third party customers. Revenue is recorded at invoice value, net of discounts, allowances, volume and promotional rebates and excludes VAT. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually upon shipment, or in line with terms agreed with individual customers and when the amount of revenue and costs incurred can be measured reliably. Revenue is recorded when the collection of the amount due is reasonably assured. An estimate is made on the basis of historical sales returns and is recorded to allocate these returns to the same period as the original revenue is recorded. Rebate and discount accruals are established based on best estimates of the amounts necessary to meet claims by the Group's customers. Any unutilised accrual is released after assessment that the likelihood of such a claim being made is remote.

### Segmental analysis

The Group's operating segments are identified on the basis of the Group's management structure, the components of which engage in revenue and expense generating activities. The operating segments present their results and financial information to be regularly reviewed by the Group's Chief Operating Decision Maker, which the Group has defined as the executive Directors. Trading profit is the key measure utilised in assessing the performance of operating segments within the Group.

The Group has two operating segments: Ingredients & Flavours and Consumer Foods. The Ingredients & Flavours operating segment manufactures and distributes application specific ingredients and flavours spanning a number of technology platforms while the Consumer Foods segment manufactures and supplies added value brands and customer branded foods mainly to the Irish and UK markets. Corporate activities, such as the cost of corporate stewardship, are reported along with the elimination of inter-group activities under the heading 'Group Eliminations and Unallocated'. Inter-segment pricing is determined on an arm's length basis. There are no material dependencies or concentrations on individual customers which would warrant disclosure under IFRS 8 'Operating Segments'.

### Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price and other directly attributable costs. Freehold land is stated at cost and is not depreciated.

Depreciation on the remaining property, plant and equipment is calculated by charging equal annual instalments to the Consolidated Income Statement at the following annual rates:

— Buildings	2% – 5%
— Plant, machinery and equipment	7% – 25%
— Motor vehicles	20%

The charge in respect of periodic depreciation is calculated after establishing an estimate of the asset's useful life and the expected residual value at the end of its life. Increasing/(decreasing) an asset's expected life or its residual value would result in a (decreased)/increased depreciation charge to the Consolidated Income Statement as well as an increase/(decrease) in the carrying value of the asset.

The useful lives of Group assets are determined by management at the time the assets are acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Historically, changes in useful lives or residual values have not resulted in material changes to the Group's depreciation charge.

Assets in the course of construction for production or administrative purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

### Assets classified as held for sale

Assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, management is committed to the sale and the sale is expected to be completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.



## Notes to the Financial Statements

### 1. Statement of Accounting Policies (continued)

#### *Intangible assets*

##### *(a) Goodwill*

Goodwill arises on business combinations and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary entity at the date control is achieved. 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 arising on acquisitions before the date of transition to IFRS has been retained at the previous Irish/UK GAAP amounts subject to impairment testing. Goodwill written off to reserves under Irish/UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

At the date control is achieved, goodwill is allocated, for the purpose of impairment testing, to one or more cash generating units (CGU). Goodwill is not amortised but is reviewed for indications of impairment at least annually and is carried at cost less accumulated impairment losses, where identified. Impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill (not previously written off to reserves) is included in the determination of the profit or loss on disposal.

##### *(b) Brand related intangibles*

Brand related intangibles acquired as part of a business combination are valued at their fair value at the date control is achieved. Intangible assets determined to have an indefinite useful life are not amortised and are tested for impairment at least annually. Indefinite life intangible assets are those for which there is no foreseeable limit to their expected useful life. In arriving at the conclusion that these brand related intangibles have an indefinite life, management considers that the Group is a technology business and expects to acquire, hold and support technology for an indefinite period. The Group supports this through spending on research and development. The classification of intangible assets as indefinite is reviewed annually.

Finite life brand related intangible assets are amortised over the period of their expected useful lives, which range from 2 to 20 years, by charging equal annual instalments to the Consolidated Income Statement. The useful life used to amortise finite intangible assets relates to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. Historically, changes in useful lives has not resulted in material changes to the Group's amortisation charge.

##### *(c) Computer software*

Computer software separately acquired, including computer software which is not an integral part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated

impairment losses. Cost comprises purchase price and other directly attributable costs.

Computer software is recognised as an asset only if it meets the following criteria:

- an asset can be separately identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met.

Computer software is amortised over its expected useful life, which ranges from 3 to 7 years, by charging equal annual instalments to the Consolidated Income Statement. Amortisation commences when the assets are ready for use.

#### *Impairment of non-financial assets*

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation. They are tested annually in the last quarter of the year or when indications exist that the asset may be impaired. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU) which is by region within operating segment. An impairment loss is recognised immediately in the Consolidated Income Statement for the amount by which the asset's carrying value exceeds its recoverable amount. 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 CGU. The key assumptions for the value in use calculations are discount rates and growth rates during the year.

When an impairment loss (other than on goodwill) subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not exceeding its carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is reviewed by assessing the asset's value-in-use when compared to its carrying value.

## 1. Statement of Accounting Policies (continued)

### *Inventories*

Inventories are valued at the lower of cost and net realisable value. Cost includes all expenditure incurred in the normal course of business in bringing the products to their present location and condition. Net realisable value is the estimated selling price of inventory on hand less all further costs to completion and all costs expected to be incurred in marketing, distribution and selling. Write-downs of inventories are primarily recognised under raw materials and consumables in the Consolidated Income Statement.

### *Income taxes*

Income taxes include both current and deferred taxes. Income taxes are charged or credited to the Consolidated Income Statement except when they relate to items charged or credited directly to shareholders' equity. In this instance the income taxes are also charged or credited to shareholders' equity.

The current tax charge is calculated as the amount payable based on taxable profit and the tax rates applying to those profits in the year together with adjustments relating to prior years. Deferred taxes are calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Group can be subject to tax audits in any of the jurisdictions in which it operates. Amounts accrued in respect of tax audits are determined based on management's interpretation of the relevant tax laws and likelihood of a successful conclusion. When the final tax outcome for these items is different from amounts initially recorded, such differences will impact the income tax and deferred tax in the period in which such a determination is made, as well as the Group's cash position.

Deferred taxes are calculated based on the temporary differences that arise between the tax base of the asset or liability and its carrying value in the Consolidated Balance Sheet. Deferred taxes are recognised on all temporary differences in existence at the balance sheet date except for:

- temporary differences which arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting or taxable profit or loss, or on the initial recognition of goodwill for which a tax deduction is not available; and
- temporary differences which arise on investments in subsidiaries where the timing of the reversal is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Deferred tax assets are reviewed at each reporting date.

Current and deferred income tax assets and liabilities are offset where taxes are levied by the same taxation authority, there is a legal right of offset between the assets and liabilities and the Group intends to settle on a net basis.

### *Retirement benefits obligation*

Payments to defined contribution plans are recognised in the Consolidated Income Statement as they fall due and any contributions outstanding at the year end are included as an accrual in the Consolidated Balance Sheet. Where sufficient information is not available to account for defined benefit multi employer plans as defined benefit plans, they are treated as defined contribution plans and are accounted for accordingly.

Actuarial valuations for accounting purposes are carried out at each balance sheet date in relation to defined benefit plans, using the projected unit credit method, to determine the schemes' liabilities and the related cost of providing benefits.

Current service cost, expected return on pension schemes' assets and interest on schemes' liabilities are recognised in the Consolidated Income Statement as they arise. Actuarial gains and losses are recognised in full in the period in which they occur in the Consolidated Statement of Recognised Income and Expense. Past service cost, which can be positive or negative, is recognised immediately in the Consolidated Income Statement to the extent the change in benefits is already vested. Otherwise, past service cost is recognised on a straight line basis over the average period until the benefits become vested. Gains or losses on the curtailment or settlement of a plan are recognised in the Consolidated Income Statement when the curtailment or settlement occurs.

The defined benefit liability recognised in the Consolidated Balance Sheet represents the present value of the defined benefit obligation less any past service cost not yet recognised and less the fair value of any plan assets. Defined benefit assets are also recognised in the Consolidated Balance Sheet but are limited to the total of unrecognised past service cost and the present value of available refunds from, and reductions in future contributions to, the plan.

## Notes to the Financial Statements

### 1. Statement of Accounting Policies (continued)

#### *Provisions*

Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated Balance Sheet when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that the Group will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the amount required to settle the present obligation at the balance sheet date, after taking account of the risks and uncertainties surrounding the obligation.

#### *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the financial year it is incurred.

Development expenditure is assessed and capitalised as an internally generated intangible asset only if it meets all of the following criteria:

- it is technically feasible to complete the asset for use or sale;
- it is intended to complete the asset for use or sale;
- the Group has the ability to use or sell the intangible asset;
- it is probable that the asset created will generate future economic benefits;
- adequate resources are available to complete the asset for sale or use; and
- the development cost of the asset can be measured reliably.

Capitalised development costs are amortised over their expected economic lives. Where no internally generated intangible asset can be recognised, product development expenditure is recognised as an expense in the financial year it is incurred. The Group has not capitalised development expenditure to date.

#### *Grants*

Grants of a capital nature are accounted for as deferred income in the Consolidated Balance Sheet and are released to the Consolidated Income Statement at the same rates as the related assets are depreciated. Grants of a revenue nature are credited to the Consolidated Income Statement to offset the matching expenditure.

#### *Dividends*

Dividends are accounted for when they are approved, through the retained earnings reserve. Dividends proposed do not meet the definition of a liability until such time as they have been approved.

#### *Operating leases*

Annual rentals payable under operating leases are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

#### *Share-based payments*

The Group has granted share-based payments to employees under a long term incentive plan.

The equity-settled share-based awards granted under these plans are measured at the fair value of the equity instruments at the date of grant. The fair value is measured using the Monte Carlo Pricing Model. The cost of the award is charged to the Consolidated Income Statement over the vesting period of the awards based on the probable number of awards that will eventually vest, with a corresponding credit to shareholders' equity. At the balance sheet date, the estimate of the level of vesting is reviewed and any adjustment necessary is recognised in the Consolidated Income Statement and in shareholders' equity.

#### *Foreign currency*

Foreign currency transactions are translated into functional currency at the rate of exchange ruling at the date of the transaction. Exchange differences arising from either the retranslation of the resulting monetary assets or liabilities at the exchange rate at the balance sheet date or from the settlement of the balance at a different rate are recognised in the Consolidated Income Statement when they occur.

On consolidation the income statements of foreign currency subsidiaries are translated into Euro at the average exchange rate. If this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, a weighted average rate is used. The balance sheets of such subsidiaries are translated at the rate of exchange at the balance sheet date. Resulting exchange differences arising on the translation of foreign currency subsidiaries are taken directly to a separate component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate.

On disposal of a foreign currency subsidiary, the cumulative translation difference for that foreign subsidiary is transferred to the Consolidated Income Statement as part of the gain or loss on disposal.

## 1. Statement of Accounting Policies (continued)

### *Borrowing costs*

Borrowing costs incurred for qualifying assets, which take a substantial period of time to construct, are added to the cost of the asset during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed to the Consolidated Income Statement in the period in which they are incurred.

### *Business combinations*

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value, which represents fair value less costs to sell, at the date the Group assumes control of the acquiree. Acquisition related costs are recognised in the Consolidated Income Statement as incurred. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held investment in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Certain assets and liabilities are not recognised at their fair value at the date control was achieved as they are accounted for using other applicable IFRSs. These include deferred tax assets/liabilities and also any assets related to employee benefit arrangements.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the valuation of the fair value of assets and liabilities acquired is still in progress. Those provisional amounts are adjusted during the measurement period of one year from the date control is achieved when additional information is obtained about facts and circumstances which would have affected the amounts recognised as of that date.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Any fair value adjustments in relation to acquisitions completed prior to 1 January 2010 have been accounted for under IFRS 3 'Business Combinations (2004)'.

### *Investments in subsidiaries*

Investments in subsidiaries held by the Parent Company are carried at cost less accumulated impairment losses.

### *Financial instruments*

Financial assets and financial liabilities are recognised on the Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, plus transaction costs, except for those classified as fair value through profit or loss, which are initially measured at fair value.

All financial assets are recognised and derecognised on a trade date basis, where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe of the market concerned.

Financial assets and liabilities are classified into specified categories in accordance with IAS 39 'Financial Instruments: Recognition & Measurement'. These categories are as follows:

- available-for-sale financial assets;
- loans and receivables;
- cash and cash equivalents;
- financial assets at fair value through profit or loss (FVTPL);
- held to maturity investments;
- financial liabilities measured at amortised cost;
- financial liabilities at fair value through profit or loss (FVTPL); and
- borrowings.

The classification is determined at the time of initial recognition of the financial asset or liability and is based upon its nature and purpose.

## Notes to the Financial Statements

### 1. Statement of Accounting Policies (continued)

#### *Financial instruments (continued)*

##### *(a) Available-for-sale financial assets*

Group financial asset investments are classified as available-for-sale as they are non-derivative assets and are not designated at FVTPL on initial recognition. Available-for-sale investments are stated at their fair value at the balance sheet date. Movements in fair value are recorded in shareholders' equity until the asset is disposed of unless there is deemed to be an impairment on the original cost in which case the loss is taken directly to the Consolidated Income Statement. Upon disposal the fair value movement in shareholders' equity is transferred to the Consolidated Income Statement.

Quoted market prices are used to determine the fair value of listed shares where there is an active market. Where there is not an active market, a 'sum-of-the-parts' valuation model is used to determine the fair value of shares. A market is deemed not to be active when a low level of trading exists and willing buyers and sellers are not readily available. The 'sum-of-the-parts' valuation separates the available-for-sale investments into the operating segments and uses industry analysis and the market valuations of peer companies in the relevant segments to arrive at a combined valuation for the investments.

##### *(b) Loans and receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Trade and other receivables are stated at amortised cost, which approximates fair value given the short term nature of these assets. An allowance for doubtful trade receivables is created based on incurred loss experience or where there is objective evidence that amounts are irrecoverable. Movements in this allowance are recorded in 'other external charges' in the Consolidated Income Statement.

##### *(c) Cash and cash equivalents*

Cash and cash equivalents consists of cash at bank and in hand, bank overdrafts held by the Group and short term bank deposits with a maturity of three months or less. Cash at bank and in hand and short term bank deposits are shown under current assets on the Consolidated Balance Sheet. Bank overdrafts are shown within 'Borrowings and overdrafts' in current liabilities on the Consolidated Balance Sheet but are included as a component of cash and cash equivalents for the purpose of the cash flow statement. The carrying amount of these assets and liabilities approximates to their fair value.

##### *(d) Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are classified as FVTPL when the financial assets are either held for trading or they are designated upon initial recognition as FVTPL.

Certain derivatives that are not designated and effective as a hedging instrument are classified as held for trading. The Group does not have any other financial assets classified as held for trading.

##### *(e) Held to maturity investments*

The Group currently does not have any held to maturity investments.

##### *(f) Financial liabilities at amortised cost*

Other non-derivative financial liabilities consist primarily of trade and other payables and borrowings. Trade and other payables are stated at amortised cost, which approximates to their fair value given the short term nature of these liabilities. Trade payables are non interest bearing.

##### *(g) Financial liabilities at fair value through profit or loss (FVTPL)*

Financial liabilities at FVTPL arise when the financial liabilities are either held for trading or they are designated upon initial recognition as FVTPL.

The Group classifies as held for trading certain derivatives that are not designated and effective as a hedging instrument. The Group does not have any other financial liabilities classified as held for trading.

##### *(h) Borrowings*

Debt instruments are initially recorded at fair value, net of transaction costs. Subsequently they are reported at amortised cost, except for hedged debt. Discounts between the net proceeds received and the principal value due on redemption are recognised as a finance cost in the Consolidated Income Statement. To the extent that debt instruments are hedged under qualifying fair value hedges, the carrying value of the debt instrument is adjusted for changes in the fair value of the hedged item, with changes arising recognised in the Consolidated Income Statement. The fair value of the hedged item is primarily determined using the discounted cash flow basis.

## 1. Statement of Accounting Policies (continued)

### *Financial instruments (continued)*

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when objective evidence highlights that the estimated future cash flows from the investment have been affected.

For quoted and unquoted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment.

For trade receivables, unusual or increasingly delayed payments, increase in average credit period taken or known financial difficulties of a customer, in addition to observable changes in national or local economic conditions in the country of the customer are considered indicators that the trade receivable balance may be impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Consolidated Income Statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to other external charges in the Consolidated Income Statement.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty, indicated through unusual or increasingly delayed payments or increase in average credit period taken;
- evidence that they are entering bankruptcy or financial re-organisation; and
- observable changes in local or economic conditions.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities only when the Group's obligations are discharged, cancelled or expire.

#### *Derivative financial instruments and hedge accounting*

The Group's activities expose it to risks of changes in foreign currency exchange rates and interest rates in relation to international trading and long-term debt. The Group uses foreign exchange forward contracts, interest rate swaps and forward rate agreements to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is applied to the derivative instruments where they are effective in offsetting the changes in fair value or cash flows of the hedged item. The relevant criteria required in order to apply hedge accounting is as follows:

- the hedged item and the hedging instrument are specifically identified;
- the hedging relationship is formally documented to identify the hedged risk and how the effectiveness is assessed;
- the effectiveness of the hedge can be reliably measured;
- the hedge must be expected to be highly effective and this is tested regularly throughout its life; and
- a forecast transaction that is the subject of the hedge must be highly probable.

#### *Fair value of financial instrument derivatives*

The fair value of derivative instruments is calculated using discounted cash flow analysis based on the applicable yield curve for the duration and currency of the instrument, which are observable:

- Foreign currency forward contracts are measured using quoted forward exchange rates to match the maturities of these contracts; and
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves.

#### *Cash flow hedges*

Where derivatives, including forward foreign currency contracts, forward commodity contracts and floating to fixed interest rate swaps or cross currency swaps are used, they are primarily treated as cash flow hedges. The gain or loss relating to the effective portion of the interest rate swaps and cross currency interest rate swaps is recognised in other comprehensive income and is reclassified to profit or loss in the period when the hedged item is recognised through profit or loss. Any such reclassification to profit or loss is recognised within finance costs in the Consolidated Income Statement and all effective amounts directly offset against movements in the underlying hedged item. Any ineffective portion of the hedge is recognised in the Consolidated Income Statement. The gain or loss relating to the effective portion of forward foreign currency contracts and forward commodity contracts is recognised in other comprehensive income and is reclassified to profit or loss in the period the hedged item is recognised through profit or loss. Any ineffective portion of the hedge is recognised in the Consolidated Income Statement. When the hedged firm commitment or forecasted transaction occurs and results in the recognition of an asset or liability, the amounts previously recognised in the hedge reserve, within shareholders' equity are reclassified through profit or loss in the periods when the hedged item is impacting the Consolidated Income Statement.



## Notes to the Financial Statements

### 1. Statement of Accounting Policies (continued)

#### *Financial instruments (continued)*

If a hedge is no longer effective or a hedging relationship ceases to exist, hedge accounting is discontinued prospectively and any cumulative gain or loss on the instrument previously recognised in shareholders' equity is retained in shareholders' equity until the forecasted transaction occurs, at which time it is released to the Consolidated Income Statement. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss in shareholders' equity is transferred to the Consolidated Income Statement immediately.

Cash flow hedge accounting is applied to foreign exchange forward contracts which are expected to be effective in offsetting the changes in fair value or cash flows of expected future cash flows. In order to achieve and maintain cash flow hedge accounting, it is necessary for management to determine, at inception and on an ongoing basis, whether a forecast transaction is highly probable and whether the hedge is effective.

#### *Fair value hedges*

Where fixed to floating interest rate swaps are used they are treated as fair value hedges. Changes in the fair value of derivatives that are designated as fair value hedges are recognised directly in the Consolidated Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to exist or the Group revokes the designation. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the Consolidated Income Statement from that date.

#### *Trading Derivatives*

Certain derivatives which comply with the Group's financial risk management policies are not accounted for using hedge accounting. This arises where the derivatives either; a) do not qualify for hedge accounting; b) provide an effective hedge against foreign currency borrowings without having to apply hedge accounting; or c) where management have decided not to apply hedge accounting. In these cases the instrument is reported independently at fair value with any changes recognised in the Consolidated Income Statement. In all other instances, cash flow or fair value hedge accounting is applied.

#### *Critical accounting estimates and judgements*

Preparation of the consolidated financial statements requires management to make certain estimations, assumptions and judgements that affect the reported profits, assets and liabilities.

Estimates and underlying assumptions are reviewed on an on-going basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Such changes are recognised in the year in which the estimate is revised.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below and in the respective notes to the consolidated financial statements.

#### *Impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired or whether a reversal of an impairment of intangible assets (other than on goodwill) should be recorded requires comparison of the value in use for the relevant cash generating units (CGUs) to the net assets attributable to those CGUs. The value in use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long term growth rate of the applicable businesses. Such estimates and judgements are subject to change as a result of changing economic conditions. Details of the assumptions used and key sources of estimation involved are detailed in note 12 to these consolidated financial statements.

## 1. Statement of Accounting Policies (continued)

### *Critical accounting estimates and judgements (continued)*

#### ***Business combinations***

When acquiring a business, the Group is required to bring acquired assets and liabilities on to the consolidated balance sheet at their fair value, the determination of which requires a significant degree of estimation and judgement.

Acquisitions may also result in intangible benefits being brought into the Group, some of which qualify for recognition as intangible assets while other such benefits do not meet the recognition requirements of IFRS and therefore form part of goodwill. Judgement is required in the assessment and valuation of these intangible assets, including assumptions on the timing and amount of future cash flows generated by the assets and the selection of an appropriate discount rate.

Depending on the nature of the assets and liabilities acquired, determined provisional fair values may be associated with uncertainty and possibly adjusted subsequently as allowed by IFRS 3.

Business combinations are disclosed in note 30 to these consolidated financial statements.

#### ***Retirement benefits obligation***

The estimation of and accounting for retirement benefits obligation involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, future salary and pension increases, inflation and expected returns on assets as well as discount rates. The assumptions used by the Group and a sensitivity analysis of a change in these assumptions are described in note 25.

#### ***Provisions***

The amounts recognised as a provision are management's best estimate of the expenditure required to settle present obligations at the balance sheet date. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances. Provisions are disclosed in note 24 to these consolidated financial statements.

#### ***Income taxes and deferred tax assets and liabilities***

The calculation of the income tax charge involves a degree of estimation and judgement as the Group operates in many jurisdictions and the tax treatment of certain items cannot be fully determined at the time of the original transaction. Furthermore, the Group can also be subject to tax audits in any of the jurisdictions in which it operates, which by their nature are often complex and can require several years to conclude. Amounts accrued in respect of tax audits are determined based on management's interpretation of the relevant tax laws and likelihood of a successful conclusion.

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset exists.

"Income taxes" and "Deferred tax assets and liabilities" are disclosed in notes 7 and 16 to these consolidated financial statements, respectively.

#### ***Other areas***

Other areas where accounting estimates and judgements are required, though the impact on the consolidated financial statements is not considered as significant as those mentioned above, are property, plant and equipment (note 11), financial assets investments (note 13) and financial instruments (notes 22 and 23).

## Notes to the Financial Statements

### 1. Statement of Accounting Policies (continued)

#### *New standards and interpretations*

Certain new and revised accounting standards and new International Financial Reporting Interpretations Committee (IFRIC) interpretations have been issued and the Group's assessment of the impact of these new standards and interpretations is set out below.

<i>Standards and Interpretations effective for Kerry Group in 2012 but not material to the Group:</i>		<i>Effective Date</i>
– IFRS 1 (amendments)	First-time adoption of International Financial Reporting Standards	1 July 2011
– IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 July 2011
– IAS 12 (amendment)	Income Taxes	1 January 2012

<i>Standards and Interpretations which are not yet effective for Kerry Group and not expected to have a material effect:</i>		<i>Effective Date</i>
– IFRS 1 (amendments)	First-time adoption of International Financial Reporting Standards	1 January 2013
– IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2013
– IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2015
– IFRS 10	Consolidated Financial Statements	1 January 2013
– IFRS 10	Consolidated Financial Statements	1 January 2014
– IFRS 11	Joint Arrangements	1 January 2013
– IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
– IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
– IFRS 13	Fair Value Measurement	1 January 2013
– IAS 1 (amendment)	Presentation of Financial Statements	1 July 2012
– IAS 1 (amendment)	Presentation of Financial Statements	1 January 2013
– IAS 16 (amendment)	Property, Plant and Equipment	1 January 2013
– IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 January 2013
– IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 January 2014
– IAS 28 (amendment)	Investments in Associates and Joint Ventures	1 January 2013
– IAS 32 (amendment)	Financial Instruments: Presentation	1 January 2013
– IAS 32 (amendment)	Financial Instruments: Presentation	1 January 2014
– IAS 34 (amendment)	Interim Financial Reporting	1 January 2013
– IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

<i>The following revised standard is not yet effective and the impact on Kerry Group is described below:</i>		<i>Effective Date</i>
– IAS 19 (amendment)	Employee Benefits	1 January 2013
	Amendments to IAS 19 – Employee benefits (endorsed by the EU in June 2012) changes a number of disclosure requirements for post employment arrangements and restricts the options currently available on how to account for defined benefit pension plans. This standard is effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Under the revised IAS 19, actuarial gains and losses are required to be recognised immediately when they occur thereby eliminating the option of the “corridor approach”; the expected return on assets and interest cost will be replaced by a net interest cost which is required to be calculated using the liability discount rate rather than using an assumed long term expected rate of return for calculating the expected return on assets element; and all past service costs are required to be recognised immediately. The quantification of the impact is outlined in note 26.	

<i>The following revised standards are not yet effective and the impact on Kerry Group is currently under review:</i>		<i>Effective Date</i>
– IFRS 9	Financial Instruments	1 January 2015
	IFRS 9 (2009) provides guidance solely on recognition, classification and measurement of financial assets. IFRS 9 (2009) and IFRS 9 (2010) contain two primary measurement categories for financial assets: amortised cost and fair value and also include consequential amendments to the disclosure requirements of IFRS 7. IFRS 9 (2010) also includes additional requirements for the classification and measurement of financial liabilities.	

## 2. Analysis of results

The Group has two operating segments: Ingredients & Flavours and Consumer Foods. The Ingredients & Flavours operating segment manufactures and distributes application specific ingredients and flavours spanning a number of technology platforms while the Consumer Foods segment manufactures and supplies added value brands and customer branded foods to the Irish and UK markets.

	Ingredients & Flavours 2012 €'m	Consumer Foods 2012 €'m	Group Eliminations and Unallocated 2012 €'m	Total 2012 €'m	Ingredients & Flavours 2011 €'m	Consumer Foods 2011 €'m	Group Eliminations and Unallocated 2011 €'m	Total 2011 €'m
External revenue	4,147.3	1,701.0	–	5,848.3	3,638.1	1,664.1	–	5,302.2
Inter-segment revenue	77.9	11.3	(89.2)	–	68.3	9.4	(77.7)	–
<b>Revenue</b>	<b>4,225.2</b>	<b>1,712.3</b>	<b>(89.2)</b>	<b>5,848.3</b>	<b>3,706.4</b>	<b>1,673.5</b>	<b>(77.7)</b>	<b>5,302.2</b>
<b>Trading profit</b>	<b>505.5</b>	<b>130.5</b>	<b>(81.3)</b>	<b>554.7</b>	<b>439.3</b>	<b>130.4</b>	<b>(69.2)</b>	<b>500.5</b>
Intangible asset amortisation	(14.1)	(1.3)	(8.0)	(23.4)	(13.6)	(1.4)	(4.3)	(19.3)
Non-trading items	(115.4)	(42.6)	–	(158.0)	6.2	(8.0)	–	(1.8)
<b>Operating profit</b>	<b>376.0</b>	<b>86.6</b>	<b>(89.3)</b>	<b>373.3</b>	<b>431.9</b>	<b>121.0</b>	<b>(73.5)</b>	<b>479.4</b>
Finance income				1.1				0.9
Finance costs				(50.3)				(46.9)
<b>Profit before taxation</b>				<b>324.1</b>				<b>433.4</b>
Income taxes				(57.1)				(72.7)
<b>Profit after taxation</b>				<b>267.0</b>				<b>360.7</b>
<b>Segment assets and liabilities</b>								
Segment assets	3,330.4	1,088.3	931.0	5,349.7	3,267.7	1,114.3	848.0	5,230.0
Segment liabilities	(847.4)	(460.5)	(2,024.6)	(3,332.5)	(820.4)	(472.4)	(2,091.9)	(3,384.7)
<b>Net assets</b>	<b>2,483.0</b>	<b>627.8</b>	<b>(1,093.6)</b>	<b>2,017.2</b>	<b>2,447.3</b>	<b>641.9</b>	<b>(1,243.9)</b>	<b>1,845.3</b>
<b>Other segmental information</b>								
Property, plant and equipment additions	114.7	26.0	5.1	145.8	111.4	31.0	–	142.4
Depreciation (net)	84.7	26.8	2.8	114.3	71.0	29.8	–	100.8
Intangible asset additions	0.5	–	22.3	22.8	0.5	0.1	29.1	29.7

## Notes to the Financial Statements

### 2. Analysis of results (continued)

#### Information about geographical areas

	EMEA 2012 €'m	Americas 2012 €'m	Asia Pacific 2012 €'m	Total 2012 €'m	EMEA 2011 €'m	Americas 2011 €'m	Asia Pacific 2011 €'m	Total 2011 €'m
Revenue by location of external customers	3,315.7	1,806.8	725.8	5,848.3	3,139.2	1,557.7	605.3	5,302.2
Segment assets by location	3,330.0	1,547.1	472.6	5,349.7	3,329.7	1,494.9	405.4	5,230.0
Property, plant and equipment additions	64.7	67.1	14.0	145.8	70.6	56.6	15.2	142.4
Intangible asset additions	22.3	0.2	0.3	22.8	29.3	0.3	0.1	29.7

Kerry Group plc is domiciled in the Republic of Ireland and the revenues from external customers in the Republic of Ireland were €559.8m (2011: €548.3m). The non-current assets located in the Republic of Ireland are €884.6m (2011: €872.3m).

Revenues from external customers include €1,813.8m (2011: €1,706.0m) in the United Kingdom and €1,408.0m (2011: €1,202.0m) in the US. The non-current assets in the UK are €745.3m (2011: €766.7m) and in the US are €872.0m (2011: €809.3m).

The accounting policies of the reportable segments are the same as the Group's accounting policies as outlined in the Statement of Accounting Policies.

### 3. Operating profit

Operating profit for the year has been arrived at after charging/(crediting) the following operating costs:

	Notes	Continuing Operations 2012 €'m	Continuing Operations 2011 €'m
<b>Revenue</b>		<b>5,848.3</b>	<b>5,302.2</b>
<i>Less operating costs:</i>			
Raw materials and consumables		3,348.7	3,136.4
Other external charges		490.3	445.3
Staff costs		1,060.3	966.1
Depreciation	11	116.9	103.3
Capital grants amortisation	20	(2.6)	(2.5)
Other operating charges		263.9	236.0
Foreign exchange losses/(gains)		11.9	(7.2)
Change in inventories of finished goods		4.2	(75.7)
<b>Trading profit</b>		<b>554.7</b>	<b>500.5</b>
Intangible asset amortisation	12	23.4	19.3
Acquisition integration and restructuring costs	5	120.2	10.7
Loss/(profit) on disposal of businesses	5	35.3	(17.3)
Loss on disposal of non-current assets	5	2.5	8.4
Non-trading items		158.0	1.8
<b>Operating profit</b>		<b>373.3</b>	<b>479.4</b>
<i>And is stated after charging:</i>			
Research and development costs		185.9	167.1

### 3. Operating profit (continued)

#### Directors' emoluments

Directors' emoluments are set out in the Directors' remuneration section of the Report of the Directors on pages 68 to 70.

#### Auditors' remuneration

	Deloitte & Touche Ireland 2012 €'m	Deloitte & Touche Other 2012 €'m	Deloitte & Touche Worldwide 2012 €'m	Deloitte & Touche Ireland 2011 €'m	Deloitte & Touche Other 2011 €'m	Deloitte & Touche Worldwide 2011 €'m
<i>Statutory disclosure:</i>						
Group audit	0.9	2.0	2.9	0.9	1.8	2.7
Other assurance services	0.1	0.5	0.6	–	0.3	0.3
Tax advisory services	1.3	1.2	2.5	1.1	0.4	1.5
Other non-audit services	0.1	–	0.1	0.2	0.6	0.8
	2.4	3.7	6.1	2.2	3.1	5.3

Group audit consists of fees payable for the consolidated and statutory audits of the Group and its subsidiaries. Included in Group audit are total fees of **€7,000** (2011: €7,000) which were paid to the Group's auditors in respect of the Parent Company.

### 4. Total staff numbers and costs

The average number of people employed by the Group was:

	Ingredients & Flavours 2012 Number	Consumer Foods 2012 Number	Total 2012 Number	Ingredients & Flavours 2011 Number	Consumer Foods 2011 Number	Total 2011 Number
EMEA	5,084	10,243	15,327	5,078	10,528	15,606
Americas	5,903	–	5,903	5,977	–	5,977
Asia Pacific	2,952	–	2,952	2,462	–	2,462
	13,939	10,243	24,182	13,517	10,528	24,045

The aggregate payroll costs of employees (including Executive Directors) were:

	Ingredients & Flavours 2012 €'m	Consumer Foods 2012 €'m	Total 2012 €'m	Ingredients & Flavours 2011 €'m	Consumer Foods 2011 €'m	Total 2011 €'m
EMEA	290.2	361.8	652.0	259.1	352.3	611.4
Americas	312.6	–	312.6	285.4	–	285.4
Asia Pacific	101.7	–	101.7	79.0	–	79.0
	704.5	361.8	1,066.3	623.5	352.3	975.8

Social welfare costs of **€101.9m** (2011: €91.5m) as well as the Long Term Incentive Plan expense of **€2.4m** (2011: €2.0m) are included in payroll costs. Pension costs included in the payroll costs are disclosed in note 25. Included in the above payroll costs disclosure is **€6.0m** (2011: €9.7m) which has been capitalised as part of computer software in intangible assets.



## Notes to the Financial Statements

### 5. Non-trading items

#### (a) Acquisition integration and restructuring costs

	Gross Cost €'m	Tax €'m	Net Cost €'m
Acquisition integration costs	69.6	(10.7)	58.9
Footprint and supply chain restructuring programme	50.6	(9.7)	40.9
<b>2012 Acquisition integration and restructuring costs</b>	<b>120.2</b>	<b>(20.4)</b>	<b>99.8</b>
2011 Acquisition integration and restructuring costs	10.7	(1.4)	9.3

Of which:

	Acquisition integration costs €'m	Footprint and supply chain restructuring programme €'m	Total Gross Cost €'m	Tax €'m	Net Cost €'m
Redundancies and contract compensation	32.6	30.5	63.1	(10.9)	52.2
Impairment of assets and other non-cash costs	10.7	12.9	23.6	(4.2)	19.4
Relocation and dual running costs	12.9	6.9	19.8	(3.3)	16.5
Transitional service agreements and acquisition transaction costs	3.6	–	3.6	(0.4)	3.2
Other	9.8	0.3	10.1	(1.6)	8.5
<b>Acquisition integration and restructuring costs</b>	<b>69.6</b>	<b>50.6</b>	<b>120.2</b>	<b>(20.4)</b>	<b>99.8</b>

Acquisition integration costs represent additional investment by the Group in the recently acquired businesses, in particular the Cargill's flavours business, in order to realise their full value and achieve expected synergies. The costs reflect the closure of factories, relocation of resources and the streamlining of operations in order to integrate the businesses into the existing Kerry operating model.

Footprint and supply chain restructuring programme are the costs associated with the Group's progression of the 1 Kerry business excellence programme across all manufacturing operations and functional areas to leverage Kerry's global expertise and capabilities, whilst optimising manufacturing, scale and efficiency benefits.

The 2012 costs reflect the impact of closing or streamlining 13 sites within the Group.

The 2011 acquisition integration costs included transaction expenses incurred in completing the 2011 acquisitions as well as initial costs in integrating the acquisitions into the Group's operations and structure.

#### Tax

A tax credit of €20.4m (2011: €1.4m) arose due to tax deductions available on the acquisition integration and restructuring costs.

#### Cash impact

The acquisition integration costs resulted in net cash outflow (after related tax) of €29.8m (2011: €12.5m), of which €1.0m relates to prior year programmes (note 24). The restructuring costs resulted in net cash outflow (after related tax) of €20.4m. The future expected cash outflow on acquisition integration costs already provided for is estimated to be €23.2m and the future expected cash outflow on restructuring costs already provided for is estimated to be €7.6m.

## 5. Non-trading items (continued)

### *(b) (Loss)/profit on disposal of businesses*

The loss of **€35.3m** relates primarily to the disposal of the Candied Fruit business in France, Cargill Aroma Chemicals US business and other non-core businesses in the UK and Ireland. The 2011 profit of €17.3m was due mainly to the Group acquiring the controlling interest of previously held investments which was partially offset by losses on the sale of non-core businesses in Ireland and the US. A net tax credit of **€0.9m** (2011: €0.3m) arose due to tax deductions available on the losses.

### *(c) Loss on disposal of non-current assets*

The loss of **€2.5m** relates primarily to the disposal of property, plant & equipment in the US and UK. The 2011 loss of €8.4m relates primarily to the disposal of property, plant and equipment in the US, UK and Brazil. A net tax credit of **€1.2m** (2011: €0.2m) arose due to tax deductions available on the losses.

## 6. Finance income and costs

	2012 €'m	2011 €'m
Interest income on deposits	(1.1)	(0.9)
Interest payable	50.6	47.5
Borrowing costs capitalised	(0.3)	(0.6)
	49.2	46.0

The finance costs capitalised relate to the borrowing costs incurred on the development of computer software for the Kerryconnect programme. Interest is capitalised at the Group's average interest rate for the period of 3.5% (2011: 4.0%).

## Notes to the Financial Statements

### 7. Income taxes

	Notes	2012 €'m	2011 €'m
<b>Recognition in the Consolidated Income Statement</b>			
Current tax expense		60.3	58.0
Adjustments in respect of prior years		0.9	0.2
		61.2	58.2
Deferred tax	16	(4.1)	14.5
<b>Income tax expense</b>		<b>57.1</b>	<b>72.7</b>
Included in the above are the following tax credits on non-trading items:			
Current tax		(11.3)	(1.6)
Deferred tax		(11.2)	(0.3)
	5	(22.5)	(1.9)

The applicable notional tax rate of 19.5% (2011: 17.5%) used by the Group is calculated based on the weighted average of the standard tax rates applying to profits earned by the Group in the jurisdictions in which it operates. The variation in the applicable notional tax rate is caused by changes in profits by jurisdiction, as well as changes in local statutory tax rates.

The applicable notional tax rate for the year can be reconciled to the income tax expense as follows:

	2012 €'m	2011 €'m
Profit before taxation	324.1	433.4
Applicable notional tax	63.4	75.8
Adjustments to current tax and deferred tax in respect of prior years	0.8	(1.4)
Income taxed at rates other than standard tax rates	0.2	0.8
Withholding taxes and other local taxes	4.6	1.2
Income not subject to tax	(8.3)	(12.9)
(Utilisation)/non-recognition of unprovided deferred tax assets	(5.0)	8.6
Other adjusting items	1.4	0.6
<b>Income tax expense</b>	<b>57.1</b>	<b>72.7</b>

An increase in the Group's applicable tax rate of 1% would reduce profit after tax by €3.3m (2011: €4.3m).

Factors that may affect the Group's future tax charge include the effects of restructuring, acquisitions and disposals, changes in tax legislation and rates and the use of brought forward losses.

### 8. Profit attributable to Kerry Group plc

In accordance with section 148 (8) of the Companies Act, 1963 and section 7 (1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's profit for the financial year as determined in accordance with IFRSs as adopted by the European Union is €93.3m (2011: €27.4m).

## 9. Earnings per A ordinary share

	Notes	EPS cent	2012 €'m	EPS cent	2011 €'m
<b>Basic earnings per share</b>					
Profit after taxation and attributable to owners of the parent		152.0	267.0	205.5	360.7
Brand related intangible asset amortisation	12	8.4	14.7	7.9	13.9
Non-trading items (net of related tax)	5	77.2	135.5	–	(0.1)
<b>Adjusted earnings</b>		<b>237.6</b>	<b>417.2</b>	<b>213.4</b>	<b>374.5</b>
<b>Diluted earnings per share</b>					
Profit after taxation and attributable to owners of the parent		151.9	267.0	205.4	360.7
Adjusted earnings		237.3	417.2	213.3	374.5

In addition to the basic and diluted earnings per share, an adjusted earnings per share is also provided as it is considered more reflective of the Group's underlying trading performance. Adjusted earnings is profit after taxation before brand related intangible asset amortisation and non-trading items (net of related tax). These items are excluded in order to assist in the understanding of underlying earnings.

Number of Shares	Notes	2012 m's	2011 m's
Basic weighted average number of shares		175.6	175.5
Impact of share options outstanding		0.2	0.1
Diluted weighted average number of shares		175.8	175.6
Actual number of shares in issue as at 31 December	27	175.6	175.5

## 10. Dividends

	2012 €'m	2011 €'m
<b>Group and Company:</b>		
<b>Amounts recognised as distributions to equity shareholders in the year</b>		
Final 2011 dividend of 22.40 cent per A ordinary share paid 11 May 2012 (Final 2010 dividend of 20.00 cent per A ordinary share paid 13 May 2011)	39.3	35.2
Interim 2012 dividend of 10.80 cent per A ordinary share paid 16 November 2012 (Interim 2011 dividend of 9.80 cent per A ordinary share paid 11 November 2011)	19.0	17.2
	<b>58.3</b>	<b>52.4</b>

Since the year end the Board has proposed a final 2012 dividend of 25.00 cent per A ordinary share. The payment date for the final dividend will be 10 May 2013 to shareholders registered on the record date as at 12 April 2013. These consolidated financial statements do not reflect this dividend.

## Notes to the Financial Statements

### 11. Property, plant and equipment

	Notes	Land and Buildings €'m	Plant, Machinery and Equipment €'m	Construction in Progress €'m	Motor Vehicles €'m	Total €'m
<b>Group:</b>						
<b>Cost</b>						
At 1 January 2011		807.8	1,489.2	47.4	32.3	2,376.7
Businesses acquired		39.1	28.2	0.9	0.1	68.3
Additions		22.4	74.6	44.1	1.3	142.4
Purchase adjustments		(0.1)	0.1	–	–	–
Transfer from construction in progress		3.4	30.3	(33.7)	–	–
Disposals/businesses disposed		(16.6)	(95.9)	(0.6)	(5.8)	(118.9)
Exchange translation adjustment		11.8	18.8	1.2	(0.2)	31.6
<b>At 31 December 2011</b>		<b>867.8</b>	<b>1,545.3</b>	<b>59.3</b>	<b>27.7</b>	<b>2,500.1</b>
Businesses acquired	30	4.4	12.3	2.0	0.5	19.2
Additions		49.7	41.7	53.7	0.7	145.8
Purchase adjustments		(9.2)	(4.6)	–	–	(13.8)
Transfer from construction in progress		8.3	49.6	(57.9)	–	–
Disposals/businesses disposed		(48.3)	(108.1)	–	(3.7)	(160.1)
Transferred to held for sale	17	–	(0.5)	–	–	(0.5)
Exchange translation adjustment		2.6	2.4	(0.3)	(0.1)	4.6
<b>At 31 December 2012</b>		<b>875.3</b>	<b>1,538.1</b>	<b>56.8</b>	<b>25.1</b>	<b>2,495.3</b>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2011		266.0	974.7	–	28.8	1,269.5
Charge during year		21.7	80.2	–	1.4	103.3
Disposals/businesses disposed		(7.1)	(85.8)	–	(5.2)	(98.1)
Exchange translation adjustment		3.8	13.0	–	(0.1)	16.7
<b>At 31 December 2011</b>		<b>284.4</b>	<b>982.1</b>	<b>–</b>	<b>24.9</b>	<b>1,291.4</b>
Charge during year	3	43.5	72.4	–	1.0	116.9
Disposals/businesses disposed		(35.6)	(99.2)	–	(3.6)	(138.4)
Impairments		8.8	8.3	–	–	17.1
Exchange translation adjustment		0.7	2.0	–	–	2.7
<b>At 31 December 2012</b>		<b>301.8</b>	<b>965.6</b>	<b>–</b>	<b>22.3</b>	<b>1,289.7</b>
<b>Carrying value</b>						
At 31 December 2011		583.4	563.2	59.3	2.8	1,208.7
<b>At 31 December 2012</b>		<b>573.5</b>	<b>572.5</b>	<b>56.8</b>	<b>2.8</b>	<b>1,205.6</b>

During the year, the Group recognised impairments in property, plant and equipment which relate to the acquisition integration and restructuring costs described in note 5. There was no impairment of property, plant and equipment in 2011.

## 11. Property, plant and equipment (continued)

	Land and Buildings Total €'m
Company:	
<b>Cost</b>	
At beginning and end of 2012 and 2011	4.8
<b>Accumulated depreciation</b>	
At 1 January 2011	3.2
Charge during year	0.2
At 31 December 2011	3.4
Charge during year	0.1
At 31 December 2012	3.5
<b>Carrying value</b>	
At 31 December 2011	1.4
At 31 December 2012	1.3



## Notes to the Financial Statements

### 12. Intangible assets

	Notes	Goodwill €'m	Brand Related Intangibles €'m	Computer Software €'m	Total €'m
<b>Group:</b>					
<b>Cost</b>					
At 1 January 2011		1,512.4	564.8	50.3	2,127.5
Businesses acquired		145.1	123.2	0.4	268.7
Additions		–	0.1	29.6	29.7
Purchase adjustments		(24.2)	24.0	–	(0.2)
Disposals/businesses disposed		(7.9)	(0.7)	–	(8.6)
Exchange translation adjustment		21.6	6.7	0.3	28.6
<b>At 31 December 2011</b>		<b>1,647.0</b>	<b>718.1</b>	<b>80.6</b>	<b>2,445.7</b>
Businesses acquired	30	88.5	66.1	–	154.6
Additions		–	–	22.8	22.8
Purchase adjustments		21.2	(4.3)	–	16.9
Disposals/businesses disposed		(0.9)	–	(0.2)	(1.1)
Exchange translation adjustment		(4.3)	(0.3)	–	(4.6)
<b>At 31 December 2012</b>		<b>1,751.5</b>	<b>779.6</b>	<b>103.2</b>	<b>2,634.3</b>
<b>Accumulated amortisation and impairment</b>					
At 1 January 2011		–	87.2	41.4	128.6
Charge during year		–	13.9	5.4	19.3
Disposals/businesses disposed		–	(0.3)	–	(0.3)
Exchange translation adjustment		–	3.1	0.4	3.5
<b>At 31 December 2011</b>		<b>–</b>	<b>103.9</b>	<b>47.2</b>	<b>151.1</b>
Charge during year	3	–	14.7	8.7	23.4
Disposals/businesses disposed		–	–	(0.2)	(0.2)
Exchange translation adjustment		–	0.1	–	0.1
<b>At 31 December 2012</b>		<b>–</b>	<b>118.7</b>	<b>55.7</b>	<b>174.4</b>
<b>Carrying value</b>					
At 31 December 2011		1,647.0	614.2	33.4	2,294.6
<b>At 31 December 2012</b>		<b>1,751.5</b>	<b>660.9</b>	<b>47.5</b>	<b>2,459.9</b>

Allocation of the purchase price in a business combination affects the results of the Group as finite life intangible assets are amortised, whereas indefinite life intangible assets, including goodwill, are not amortised. This could result in differing amortisation charges based on the allocation to finite life and indefinite life intangible assets.

Included in the cost of brand related intangibles are intangibles of €493.4m (2011: €435.0m) which have indefinite lives. There are no material internally generated brand related intangibles.

## 12. Intangible assets (continued)

Intangible assets acquired in a business combination are allocated to cash generating units (CGUs) that are expected to benefit from the business acquisition, rather than where the assets are owned. A summary of the allocation of the carrying value of goodwill and indefinite life intangible assets by beneficial region within segment, is as follows:

	Goodwill 2012 €'m	Goodwill 2011 €'m	Indefinite Life Intangibles 2012 €'m	Indefinite Life Intangibles 2011 €'m
<b>Ingredients &amp; Flavours</b>				
EMEA	451.8	451.2	104.6	99.8
Americas	721.5	657.6	221.5	180.3
Asia Pacific	144.1	118.5	64.3	52.5
<b>Consumer Foods</b>				
EMEA	434.1	419.7	103.0	102.4
	<b>1,751.5</b>	<b>1,647.0</b>	<b>493.4</b>	<b>435.0</b>

Some intangibles, which are centrally held, have been allocated above to customers/users of the intellectual property.

The Group tests goodwill and indefinite life intangibles annually for impairment, or more frequently if there are indications they might be impaired. No impairments arose in 2012 or 2011.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are discount rates and growth rates.

The table below outlines the weighted average discount rates and weighted average growth rates by CGU:

	Discount Rates 2012	Discount Rates 2011	Growth Rates 2012	Growth Rates 2011
<b>Ingredients &amp; Flavours</b>				
EMEA	5.8%	5.2%	1.9%	1.9%
Americas	5.8%	5.4%	2.4%	3.0%
Asia Pacific	7.0%	6.5%	4.3%	4.3%
<b>Consumer Foods</b>				
EMEA	5.6%	5.1%	2.0%	2.0%

Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. A higher discount rate is applied to higher risk markets, while a lower rate is applied to more stable markets. A 1% increase in the discount rate would not have resulted in an impairment charge in 2012 or 2011. Further changes to the discount rate (for example, an additional 5% increase) would not have resulted in an impairment charge in 2012 or 2011 as there is significant headroom in the discounted cash flows.

Growth rates are based on forecasts in line with long-term broad industry growth rates. Generally, lower growth rates are used in mature markets while higher growth rates are used in emerging markets. A 1% decrease in the growth rate would not have resulted in an impairment charge in 2012 or 2011.

Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

## Notes to the Financial Statements

### 12. Intangible assets (continued)

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by the Board of Directors. The cash flows are extrapolated for 5 years based on applicable estimated growth rates extended to perpetuity. The duration of the discounted cash flow model is a significant factor in determining the fair value of the CGUs, which has been arrived at after taking account of the Group's strong financial position, its established history of earnings growth and cash flow generation, its proven ability to pursue and integrate value-enhancing acquisitions and the nature of the Ingredients & Flavours and Consumer Foods industries. A 5% decrease in estimated cash flow forecasts would not have resulted in an impairment charge in 2012 or 2011.

Management believes that no reasonable change, in normal circumstances, in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount. Key assumptions include management's estimates of future profitability, replacement capital expenditure requirements based on depreciation levels and working capital investment needs which are linked to the growth rates outlined above.

The Group has no separate individual intangible asset that is material, as all intangibles acquired are integrated and developed within the existing business.

### 13. Financial asset investments

	Available-for-sale Investments €'m	Other Investments €'m	Total €'m
<b>Group:</b>			
At 1 January 2011	8.2	–	8.2
Transferred from receivables	–	11.1	11.1
At 31 December 2011	8.2	11.1	19.3
Additions	–	3.8	3.8
Impairment	(4.1)	–	(4.1)
Exchange translation adjustment	–	(0.2)	(0.2)
At 31 December 2012	4.1	14.7	18.8

#### *Available-for-sale investments*

The available-for-sale investments represent investments in equity securities. These investments have no fixed maturity or coupon rate.

During 2012, using a 'sum-of-the-parts' valuation, the fair value of the assets had decreased and an impairment of **€4.1m** (2011: €nil) was recognised in the Consolidated Income Statement.

A 10% decrease in the valuation of these shares in 2012 after impairment would have resulted in a further loss in the Consolidated Income Statement of **€0.4m** (2011: €0.8m).

#### *Other investments*

The Group maintains Rabbi Trusts in respect of non-qualified deferred compensation plans in the US. The assets of the trusts consist of bonds and cash which are restricted for use. The bonds are fair valued at each year end using quoted market prices. The corresponding liability is recognised within 'other non-current liabilities' (note 21).

#### 14. Investments in subsidiaries

	2012 €'m	2011 €'m
Company:		
At beginning and end of year – at cost	638.7	638.7

#### 15. Inventories

	2012 €'m	2011 €'m
Group:		
Raw materials and consumables	272.1	288.7
Finished goods and goods for resale	345.5	349.7
Expense inventories	19.7	20.1
	637.3	658.5

Write-downs of inventories recognised as an expense approximates to 1% (2011: 1%) of raw materials and consumables in the Consolidated Income Statement.

#### 16. Deferred tax assets and liabilities

The following is an analysis of the movement in the major categories of deferred tax liabilities/(assets) recognised by the Group:

	Notes	Property, Plant and Equipment €'m	Intangible Assets €'m	Tax Credits and NOLs €'m	Retirement Benefits Obligation €'m	Short Term Temporary Differences and Other Differences €'m	Total €'m
At 1 January 2011		84.3	163.2	(5.6)	(55.7)	(28.7)	157.5
Consolidated Income Statement movement	7	13.4	4.3	(11.4)	7.5	0.7	14.5
Recognised in shareholders' equity during year		–	–	6.8	(21.9)	(3.5)	(18.6)
Related to businesses acquired/disposed		0.1	7.8	–	–	(0.1)	7.8
Exchange translation adjustment		3.3	1.6	0.1	(1.6)	(1.8)	1.6
At 31 December 2011		101.1	176.9	(10.1)	(71.7)	(33.4)	162.8
Consolidated Income Statement movement	7	0.1	2.0	(9.1)	5.2	(2.3)	(4.1)
Recognised in shareholders' equity during year		–	–	–	(10.6)	0.1	(10.5)
Related to businesses acquired/disposed		(0.4)	8.2	–	–	(1.2)	6.6
Exchange translation adjustment		(0.4)	(1.9)	0.9	(0.5)	1.0	(0.9)
At 31 December 2012		100.4	185.2	(18.3)	(77.6)	(35.8)	153.9

The short term temporary differences and other temporary differences recognised in shareholders' equity comprise fair value movements on cashflow hedges of (€0.8m) (2011: (€2.0m)) and an exchange difference on translation of foreign operations of €0.9m (2011: (€1.5m)). In the above table, NOLs refers to Net Operating Losses.

## Notes to the Financial Statements

### 16. Deferred tax assets and liabilities (continued)

The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2012 €'m	2011 €'m
Deferred tax assets	(10.0)	(10.2)
Deferred tax liabilities	163.9	173.0
	<b>153.9</b>	<b>162.8</b>

The total tax value of deductible temporary differences which have not been recognised is **€93.0m** (2011: €99.7m) consisting mainly of tax losses forward. Unrecognised tax losses with a value of **€8.0m** (2011: €5.6m) expire within 5 years, **€3.0m** (2011: €3.9m) expire within 9 years, and the remainder of losses have a life of 20 years or may be carried forward indefinitely. In 2012 **€5.0m** of unrecognised deferred tax assets were utilised, while in 2011 €8.6m of deferred tax assets were not recognised in the year.

Deferred tax has not been recognised in respect of withholding taxes and other taxes that would be payable on the unremitted earnings of foreign subsidiaries, as the Group is in a position to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The deferred tax liabilities which have not been recognised in respect of these temporary differences is not material as the Group can rely on the availability of participation exemptions and tax credits in the context of the Group's investments in subsidiaries.

An increase of 1% in the tax rates at which deferred tax is calculated would increase the net deferred tax balance of the Group by **€7.5m** (2011: €7.8m).

### 17. Assets classified as held for sale

	Notes	2012 €'m	2011 €'m
<b>Group:</b>			
Property, plant and equipment	11	0.5	5.6

In 2012, the Group had certain assets in the Kerry Ingredients & Flavours division in Puerto Rico as held for sale. The disposal is expected to complete in 2013.

In 2011, the Group had certain assets classified in the Kerry Ingredients & Flavours division in the US as held for sale. These non-core assets resulted from restructuring programmes in prior years. These assets were disposed in 2012.

## 18. Trade and other receivables

	2012 €'m	2011 €'m
<b>Group:</b>		
Trade receivables	670.3	679.5
Less impairment allowance for doubtful trade receivables	(26.7)	(24.5)
Trade receivables due within 1 year	643.6	655.0
Other receivables and prepayments	39.1	35.4
VAT receivable	22.3	17.8
Receivables due after 1 year	1.1	1.6
	<b>706.1</b>	<b>709.8</b>

All receivable balances are due within 1 year except for €1.1m (2011: €1.6m) outlined above. All receivable balances are within terms with the exception of trade receivables which is detailed below.

The following table shows an analysis of trade receivables split between past due and within terms accounts, where past due is deemed to be when an account exceeds the agreed terms of trade:

	2012 €'m	2011 €'m
Within terms	479.5	528.1
Past due not more than 1 month	125.6	98.9
Past due more than 1 month but less than 2 months	26.9	16.4
Past due more than 2 months but less than 3 months	6.0	6.8
Past due more than 3 months	5.6	4.8
<b>Trade receivables (net)</b>	<b>643.6</b>	<b>655.0</b>

The following table summarises the movement in the allowance for doubtful trade receivables:

	2012 €'m	2011 €'m
At beginning of year	24.5	24.8
Charged to the Consolidated Income Statement	11.1	5.4
Utilised or reversed during the year	(8.7)	(5.7)
Exchange translation adjustment	(0.2)	–
<b>At end of year</b>	<b>26.7</b>	<b>24.5</b>

Trade and other receivables are stated at amortised cost, which approximates to fair value given the short term nature of these assets. Hence, the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Credit terms and the charging of interest are determined in individual countries. The Group has provided for all receivables where there is objective evidence, including historical loss experience, that amounts are irrecoverable. The Group does not typically require collateral in respect of trade receivables.

The quality of past due not impaired trade and other receivables is considered good, therefore no significant impairment charge has been recorded in the Consolidated Income Statement in 2012 or 2011.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. These credit limits are reviewed regularly throughout the year.

There is no significant concentration of credit risk or transaction currency risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.



## Notes to the Financial Statements

### 19. Trade and other payables

	Group 2012 €'m	Group 2011 €'m	Company 2012 €'m	Company 2011 €'m
Trade payables	985.9	981.2	–	–
Other payables and accruals	144.0	137.0	0.6	0.4
Deferred payments on acquisition of subsidiaries	9.2	7.8	5.9	5.9
PAYE	5.3	7.9	–	–
Social security costs	5.4	3.0	–	–
Amounts due to Group companies	–	–	5.3	6.6
	<b>1,149.8</b>	<b>1,136.9</b>	<b>11.8</b>	<b>12.9</b>

Trade and other payables are stated at amortised cost, which approximates to fair value given the short term nature of these liabilities. The above balances are all due within 1 year.

### 20. Deferred income

	Notes	Group 2012 €'m	Group 2011 €'m	Company 2012 €'m	Company 2011 €'m
<b>Capital grants</b>					
At beginning of year		23.7	24.2	0.2	0.2
Disposals/businesses disposed		(0.9)	–	–	–
Grants received		3.2	1.9	–	–
Amortised during year	3	(2.6)	(2.5)	–	–
Exchange translation adjustment		–	0.1	–	–
<b>At end of year</b>		<b>23.4</b>	<b>23.7</b>	<b>0.2</b>	<b>0.2</b>
<b>Analysed as:</b>					
Current liabilities		2.3	2.3	–	–
Non-current liabilities		21.1	21.4	0.2	0.2
		<b>23.4</b>	<b>23.7</b>	<b>0.2</b>	<b>0.2</b>

There are no material unfulfilled conditions or other contingencies attaching to any government grants received.

### 21. Other non-current liabilities

	Group 2012 €'m	Group 2011 €'m	Company 2012 €'m	Company 2011 €'m
Other payables and accruals	58.5	61.4	–	–
Deferred payments on acquisition of subsidiaries	1.6	1.7	–	–
Amounts due to Group companies	–	–	100.0	135.2
	<b>60.1</b>	<b>63.1</b>	<b>100.0</b>	<b>135.2</b>

All of the above balances are due within 1 to 5 years except for €12.3m (2011: €9.8m) which is not due until after 5 years.

## 22. Analysis of financial instruments by category

The following table outlines the financial assets and liabilities held by the Group at the balance sheet date:

	Notes	Loans & Receivables & Other Financial Assets/(Liabilities) at Amortised Cost 2012 €'m	Assets/ (Liabilities) at Fair Value through Profit or Loss 2012 €'m	Derivatives Designated as Hedging Instruments 2012 €'m	Available- for-sale Investments 2012 €'m	Total 2012 €'m
<b>Group:</b>						
Financial asset investments	13	–	14.7	–	4.1	18.8
Forward foreign exchange contracts	23	–	4.7	5.3	–	10.0
Interest rate swaps	23	–	–	86.1	–	86.1
Trade and other receivables	18	706.1	–	–	–	706.1
Cash at bank and in hand	23	215.4	–	–	–	215.4
<b>Total financial assets</b>		<b>921.5</b>	<b>19.4</b>	<b>91.4</b>	<b>4.1</b>	<b>1,036.4</b>
Current assets		921.5	4.7	5.3	–	931.5
Non-current assets		–	14.7	86.1	4.1	104.9
		921.5	19.4	91.4	4.1	1,036.4
Borrowings	23	(1,456.5)	(43.6)	–	–	(1,500.1)
Forward foreign exchange contracts	23	–	(0.9)	(0.6)	–	(1.5)
Interest rate swaps	23	–	–	(12.2)	–	(12.2)
Trade and other payables	19	(1,149.8)	–	–	–	(1,149.8)
<b>Total financial liabilities</b>		<b>(2,606.3)</b>	<b>(44.5)</b>	<b>(12.8)</b>	<b>–</b>	<b>(2,663.6)</b>
Current liabilities		(1,362.5)	(0.9)	(0.9)	–	(1,364.3)
Non-current liabilities		(1,243.8)	(43.6)	(11.9)	–	(1,299.3)
		(2,606.3)	(44.5)	(12.8)	–	(2,663.6)
<b>Total net financial (liabilities)/assets</b>		<b>(1,684.8)</b>	<b>(25.1)</b>	<b>78.6</b>	<b>4.1</b>	<b>(1,627.2)</b>

Included in the above table are the following components of net debt:

### Analysis of total net debt by category

Interest rate swaps	–	–	73.9	–	73.9
Cash at bank and in hand	215.4	–	–	–	215.4
	215.4	–	73.9	–	289.3
Bank loans	(585.6)	–	–	–	(585.6)
Senior notes	(870.9)	(43.6)	–	–	(914.5)
<b>Borrowings</b>	<b>(1,456.5)</b>	<b>(43.6)</b>	<b>–</b>	<b>–</b>	<b>(1,500.1)</b>
<b>Total net debt</b>	<b>(1,241.1)</b>	<b>(43.6)</b>	<b>73.9</b>	<b>–</b>	<b>(1,210.8)</b>

## Notes to the Financial Statements

### 22. Analysis of financial instruments by category (continued)

	Notes	Loans & Receivables & Other Financial Assets/(Liabilities) at Amortised Cost 2011 €'m	Assets/ (Liabilities) at Fair Value through Profit or Loss 2011 €'m	Derivatives Designated as Hedging Instruments 2011 €'m	Available- for-sale Investments 2011 €'m	Total 2011 €'m
<b>Group:</b>						
Financial asset investments	13	–	11.1	–	8.2	19.3
Forward foreign exchange contracts	23	–	0.8	0.6	–	1.4
Interest rate swaps	23	–	–	84.0	–	84.0
Trade and other receivables	18	709.8	–	–	–	709.8
Cash at bank and in hand	23	237.9	–	–	–	237.9
<b>Total financial assets</b>		<b>947.7</b>	<b>11.9</b>	<b>84.6</b>	<b>8.2</b>	<b>1,052.4</b>
Current assets		947.7	0.8	0.6	–	949.1
Non-current assets		–	11.1	84.0	8.2	103.3
		947.7	11.9	84.6	8.2	1,052.4
Borrowings and overdrafts	23	(1,565.9)	(33.0)	–	–	(1,598.9)
Forward foreign exchange contracts	23	–	(11.2)	(5.3)	–	(16.5)
Interest rate swaps	23	–	–	(10.7)	–	(10.7)
Trade and other payables	19	(1,136.9)	–	–	–	(1,136.9)
<b>Total financial liabilities</b>		<b>(2,702.8)</b>	<b>(44.2)</b>	<b>(16.0)</b>	<b>–</b>	<b>(2,763.0)</b>
Current liabilities		(1,175.9)	(11.2)	(5.3)	–	(1,192.4)
Non-current liabilities		(1,526.9)	(33.0)	(10.7)	–	(1,570.6)
		(2,702.8)	(44.2)	(16.0)	–	(2,763.0)
<b>Total net financial (liabilities)/assets</b>		<b>(1,755.1)</b>	<b>(32.3)</b>	<b>68.6</b>	<b>8.2</b>	<b>(1,710.6)</b>

Included in the above table are the following components of net debt:

#### Analysis of total net debt by category

Interest rate swaps	–	–	73.3	–	73.3
Cash at bank and in hand	237.9	–	–	–	237.9
	237.9	–	73.3	–	311.2
Bank overdrafts	(0.9)	–	–	–	(0.9)
Bank loans	(675.6)	–	–	–	(675.6)
Senior notes	(889.4)	(33.0)	–	–	(922.4)
Borrowings and overdrafts	(1,565.9)	(33.0)	–	–	(1,598.9)
<b>Total net debt</b>	<b>(1,328.0)</b>	<b>(33.0)</b>	<b>73.3</b>	<b>–</b>	<b>(1,287.7)</b>

## 22. Analysis of financial instruments by category (continued)

In 2012 and 2011 all Group borrowings are guaranteed by Kerry Group plc and its material asset holding companies through a cross-guarantee structure. All borrowings are unsecured.

As part of the Group's debt portfolio it holds US\$600m of senior notes issued in 2010. At the time of issuance, US\$500m of the senior notes were swapped, using cross currency swaps, to euro. Since issuance, there has been no impact on the Consolidated Income Statement as the hedge accounting for the cross currency swaps has resulted in the recognition of a total gain to date of **€42.8m** (2011: €51.5m), directly offset by a total charge to date of **€42.8m** (2011: €51.5m) resulting from the translation of the underlying hedged foreign currency borrowings at the balance sheet rates.

The adjustment to senior notes classified under liabilities at fair value through profit or loss represents the part adjustment to the carrying value of debt from applying fair value hedge accounting for interest rate risk. This amount is directly offset by the fair value adjustment on the underlying cross currency interest rate swap.

The following table outlines the financial assets and liabilities held by the Company at the balance sheet date:

	Notes	2012 €'m	2011 €'m
<b>Company:</b>			
<i>Loans &amp; receivables &amp; other financial assets at amortised cost</i>			
Cash at bank and in hand		0.1	–
<b>Total financial assets</b>		<b>0.1</b>	<b>–</b>
<i>Current assets</i>			
		0.1	–
<i>Financial liabilities at amortised cost</i>			
Borrowings and overdrafts		–	(1.1)
Trade and other payables	19	(11.8)	(12.9)
<b>Total financial liabilities</b>		<b>(11.8)</b>	<b>(14.0)</b>
<i>Current liabilities</i>			
		(11.8)	(14.0)
<b>Total net financial liabilities</b>		<b>(11.7)</b>	<b>(14.0)</b>

## Notes to the Financial Statements

### 23. Financial instruments

#### *Capital management*

The financing structure of the Group is managed in order to optimise shareholder value while allowing the Group to take advantage of opportunities that might arise to grow the business. The Group targets acquisition and investment opportunities that are value enhancing and the Group's policy is to fund these transactions from cash flow or borrowings while maintaining its investment grade debt status.

The capital structure of the Group consists of debt related financial liabilities, cash and cash equivalents and equity attributable to owners of the Parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity. In April 2011 the Group negotiated a 5 year €1bn revolving credit facility with a syndicate of international banks which provides a committed line of credit until April 2016 and significantly extends the maturity profile of committed facilities of the Group. The facility was part-utilised to prepay the near term existing committed facility.

Capital is managed by setting net debt to earnings before interest, taxes, depreciation, impairment, amortisation and non-trading items (EBITDA) targets while allowing flexibility to accommodate significant acquisition opportunities. Any expected variation from these targets should be reversible within 12 to 18 months; otherwise consideration would be given to issuing additional equity in the Group.

Net debt is subject to seasonal fluctuations that can be up to 25% above year end debt levels.

The majority of Group borrowings are subject to financial covenants calculated in accordance with lenders' facility agreements. Principal among these are:

- the ratio of net debt to EBITDA of a maximum of 3.5 times; and
- EBITDA to net interest charge of a minimum of 4.75 times.

At 31 December these ratios were as follows:

	2012 Times	2011 Times
Net debt : EBITDA	1.8	2.0
EBITDA : Net interest	13.8	13.5

#### *Financial risk management objectives*

The Group has a clearly defined Financial Risk Management Programme, which is approved by the Board of Directors and is subject to regular monitoring by the Finance Committee and Group Internal Auditors. The Group operates a centralised treasury function, which manages the principal financial risks of the Group and Company.

The principal objectives of the Group's Financial Risk Management Programme are:

- to manage the Group's exposure to foreign exchange rate risk;
- to manage the Group's exposure to interest rate risk;
- to ensure that the Group has sufficient credit facilities available; and
- to ensure that counter-party credit risk is monitored and managed.

Residual exposures not managed commercially are hedged using approved financial instruments. The use of financial derivatives is governed by the Group's policies and procedures. The Group does not engage in speculative trading.

## 23. Financial instruments (continued)

### (i) Foreign exchange rate risk management

The Group is exposed to transactional foreign currency risk on trading activities conducted by subsidiaries in currencies other than their functional currency. Group policy is to manage foreign currency exposures commercially and through netting of exposures wherever possible. Any residual exposures arising on foreign exchange transactions are hedged in accordance with Group policy using approved financial instruments, which consist primarily of spot and forward exchange contracts and currency swaps.

The table below shows the Group's currency exposures which consist of those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the Consolidated Income Statement. These exposures comprise the monetary assets and liabilities of the Group not denominated in the operating (or functional) currency of the operating unit involved, other than certain borrowings which are borrowed in the same currency as the investment in the overseas operation. As at 31 December these exposures were as follows:

	Net Foreign Currency Monetary Assets/(Liabilities) in €'m							
	Euro 2012	Sterling 2012	US Dollar 2012	Other 2012	Euro 2011	Sterling 2011	US Dollar 2011	Other 2011
<b>Functional currency of Group operation</b>								
Euro	–	(1.8)	(6.6)	4.5	–	(14.4)	36.2	0.3
Sterling	(0.3)	–	(9.6)	0.1	(0.6)	–	1.5	(0.6)
US Dollar	–	–	–	(0.1)	–	–	–	–
Other	(6.3)	1.1	22.9	3.6	(2.9)	2.0	10.1	2.1
<b>Total</b>	<b>(6.6)</b>	<b>(0.7)</b>	<b>6.7</b>	<b>8.1</b>	<b>(3.5)</b>	<b>(12.4)</b>	<b>47.8</b>	<b>1.8</b>

The amounts shown in the above table take into account the effect of forward contracts entered into to manage currency exposures. As at 31 December 2012 the Group held various open foreign currency forward contracts that were undertaken to hedge expected future transactions. Based on these net positions, as at 31 December 2012, a weakening of 5% of the US dollar and sterling against all other key operational currencies, and holding all other items constant, would have decreased the Group's profit before taxation for the year by **€0.3m** (2011: €1.7m).

The Group's gain or loss on the retranslation of the net assets of foreign currency subsidiaries is taken directly to the translation reserve. As at 31 December 2012 a 5% strengthening of the euro against the US dollar and sterling, holding all other items constant, would have resulted in an additional translation reserve loss of **€7.6m** (2011: €7.0m) and **€11.8m** (2011: €13.7m) respectively.



## Notes to the Financial Statements

### 23. Financial instruments (continued)

#### (i) Foreign exchange rate risk management (continued)

##### *Forward foreign exchange contracts - cash flow hedges*

The Group's activities expose it to risks of changes in foreign currency exchange rates in relation to international trading, primarily sales in US dollar and sterling out of the Eurozone. The Group uses forward foreign exchange contracts to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair value.

The following table details the foreign exchange contracts classified as cash flow hedges at 31 December:

	Fair Value Asset/(Liability)		Notional Principal	
	2012 €'m	2011 €'m	2012 €'m	2011 €'m
Forward foreign exchange contracts	4.7	(4.7)	246.7	145.0

At 31 December 2012 an asset of **€4.1m** (2011: €1.3m liability) of the fair value is included in the hedging reserve, which will primarily be released to the Consolidated Income Statement within **9 months** (2011: 9 months) of the balance sheet date. All forward contracts relate to sales revenue made in their respective currencies.

During 2012, a loss of **€3.6m** (2011: €2.5m gain) has been taken to foreign exchange (losses)/gains in the Consolidated Income Statement in respect of forward foreign exchange contracts that matured during the year. There were no transactions during 2012 or 2011 which were designated as hedges that did not occur, nor are there hedges on forecast transactions that are no longer expected to occur.

The gains and losses in shareholders' equity on forward foreign exchange contracts as at 31 December 2011 were released to the Consolidated Income Statement in 2012 as follows:

- within 3 months: **(€0.5m)** (2011: €1.2m);
- within 3 to 6 months: **(€0.5m)** (2011: €1.8m);
- within 6 to 9 months: **(€0.2m)** (2011: €0.6m); and
- within 9 to 12 months: **(€0.1m)** (2011: €nil).

At 31 December 2012 and 2011 no ineffectiveness was recognised in the Consolidated Income Statement from foreign currency cash flow hedges.

##### *Forward foreign exchange contracts - trading*

The Group holds forward foreign exchange contracts that provide a hedge against foreign currency receivables from within Group lending. These derivatives are classified as trading derivatives and held at fair value through profit or loss. As at 31 December 2012 the Group held a portfolio of forward foreign currency contracts that provide an economic hedge against expected future sales revenue in the respective currencies of the underlying contracts which were not classified for hedge accounting.

The following table details the forward foreign exchange contracts classified as trading derivatives at 31 December:

	Fair Value Asset/(Liability)		Notional Principal	
	2012 €'m	2011 €'m	2012 €'m	2011 €'m
Forward foreign exchange contracts	3.8	(10.4)	418.1	343.0

The fair value gain of **€3.8m** (2011: €10.4m loss) is directly offset by a loss of **€3.8m** (2011: €7.6m gain) on the retranslation to balance sheet rates on foreign currency receivables from within Group lending. The remaining balance at 31 December 2011 relates to other economic hedges. In addition, during the year a further charge of **€3.3m** was taken to the foreign exchange gain/(losses) in the Consolidated Income Statement in relation to these economic hedges.

## 23. Financial instruments (continued)

### (ii) Interest rate risk management

The Group is exposed to interest rate risk as the Group holds borrowings on both a fixed and floating basis. This exposure to interest rate risk is managed by optimising the mix of fixed and floating rate borrowings and by using interest rate swaps, cross currency swaps and forward rate agreements to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair value.

#### *Interest rate profile of financial liabilities excluding related derivatives fair value*

The Group's exposure to interest rates on financial assets and liabilities are detailed in the table below including the impact of cross currency swaps (CCS) on the currency profile of net debt:

	Total Pre CCS €'m	Impact of CCS €'m	Total after CCS €'m	Floating Rate Debt €'m	Fixed Rate Debt €'m
Euro	301.8	378.9	680.7	452.0	228.7
Sterling	108.3	–	108.3	108.3	–
US Dollar	867.7	(378.9)	488.8	34.0	454.8
Others	(36.7)	–	(36.7)	(36.7)	–
<b>At 31 December 2012</b>	<b>1,241.1</b>	<b>–</b>	<b>1,241.1</b>	<b>557.6</b>	<b>683.5</b>

	Total Pre CCS €'m	Impact of CCS €'m	Total after CCS €'m	Floating Rate Debt €'m	Fixed Rate Debt €'m
Euro	307.2	387.6	694.8	464.5	230.3
Sterling	96.3	–	96.3	96.3	–
US Dollar	937.3	(387.6)	549.7	84.6	465.1
Others	(12.8)	–	(12.8)	(12.8)	–
<b>At 31 December 2011</b>	<b>1,328.0</b>	<b>–</b>	<b>1,328.0</b>	<b>632.6</b>	<b>695.4</b>

The currency profile of debt highlights the impact of the US\$500m of cross currency swaps entered into at the time of issuance of the 2010 senior notes. US\$408m of the senior notes were swapped from US dollar fixed to Euro floating and are accounted for as fair value hedges. In addition US\$92m were swapped from US dollar fixed to Euro fixed. The retranslation of the foreign currency debt of US\$500m to the balance sheet rate resulted in a foreign currency loss of **€42.8m** (2011: €51.5m) which is directly offset by a gain of **€42.8m** (2011: €51.5m) on the application of hedge accounting on the cross currency swaps as detailed below.

The weighted average interest rate for fixed borrowings is **3.29%** (2011: 3.01%) and the weighted average period for which the rate is fixed is **2.2 years** (2011: 3.6 years).

The floating rate financial liabilities are at rates which fluctuate mainly based upon LIBOR and comprise bank borrowings and other financial liabilities bearing interest rates fixed in advance for periods ranging from 1 to 6 months. At the year end **45%** (2011: 48%) of debt was held at floating rates. If the interest rates applicable to floating rate debt were to rise by 1% over the year to December 2013 holding all other items constant, the net finance charge of the Group before taxation in the Consolidated Income Statement could increase by **12%** (2011: 11%).

## Notes to the Financial Statements

### 23. Financial instruments (continued)

#### (ii) Interest rate risk management (continued)

##### Interest rate swap contracts

The Group's activities expose it to risks of changes in interest rates in relation to long-term debt. The Group uses interest rate swaps, cross currency swaps and forward rate agreements to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair values.

There were no interest rate derivatives classified as trading derivatives and held at fair value through profit or loss. All interest rate derivatives are accounted for using hedge accounting.

##### Cash flow hedges

Under interest rate swap contracts including cross currency interest rate swaps, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on the agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of the cash flow hedges, where the Group receives floating or fixed interest rate and pays fixed interest rate on swaps as at 31 December:

	Average Contracted Fixed Interest Rate		Fair Value (Liability)/Asset		Notional Principal	
	2012 %	2011 %	2012 €'m	2011 €'m	2012 €'m	2011 €'m
<b>Interest rate swap contracts</b>						
less than 1 year	1.12	–	(0.3)	–	151.6	–
1 – 2 years	2.08	1.12	(3.0)	(0.6)	100.0	155.0
2 – 5 years	2.35	1.91	(1.4)	(10.1)	356.1	391.6
> 5 years	–	4.38	–	9.0	–	71.3
<b>Total</b>			<b>(4.7)</b>	<b>(1.7)</b>	<b>607.7</b>	<b>617.9</b>

Of the fair value liability of €4.7m at 31 December 2012 (2011: €1.7m), a gain of €7.8m (2011: €9.5m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange loss of €1.7m (2011: €2.7m gain) has been recognised in the Consolidated Income Statement and directly offsets the gain incurred on the retranslation of the underlying hedged foreign currency borrowings.

At 31 December 2012 a liability of €12.5m (2011: €11.2m) has been recognised in the hedging reserve and will be released to the Consolidated Income Statement over the life of the interest rate swaps. During 2012, a charge of €1.3m has been taken to finance costs in the Consolidated Income Statement in respect of amounts held in the hedging reserve at 31 December 2011.

The interest rate swaps settle on either a 3 or 6 monthly basis, the difference between the floating rate or fixed rate due to be received and the fixed rate to be paid are settled on a net basis.

During 2012 and 2011 no amount was recognised in the Consolidated Income Statement in relation to hedge ineffectiveness for interest rate swap cash flow hedges. All hedges are deemed to be highly effective on a prospective and retrospective basis.

## 23. Financial instruments (continued)

### (ii) Interest rate risk management (continued)

#### Fair value hedges

Under interest rate swap contracts including cross currency interest rate swaps, the Group agrees to exchange the difference between the floating and fixed interest amounts calculated on the agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of the fair value hedges, where the Group receives fixed interest rate and pays floating interest rate on swaps as at 31 December:

	Average Contracted Fixed Interest Rate		Fair Value Asset		Notional Principal	
	2012 %	2011 %	2012 €'m	2011 €'m	2012 €'m	2011 €'m
<b>Interest rate swap contracts</b>						
> 5 years	4.91	4.91	78.6	75.0	309.2	316.3

The interest rate swaps settle on a 6 monthly basis. The floating interest rate paid by the Group is based on 6 month EURIBOR. All hedges are deemed to be highly effective on a prospective and retrospective basis.

Of the fair value asset of **€78.6m** (2011: €75.0m) at 31 December 2012, a gain of **€35.0m** (2011: €42.0m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange loss of **€7.0m** (2011: €11.8m gain) has been recognised in the Consolidated Income Statement to directly offset the gain incurred on the retranslation of the underlying hedged foreign currency borrowings. In addition an amount of **€43.6m** (2011: €33.0m) relates to interest rate risk and the current year movement has been recognised in the Consolidated Income Statement. This is directly offset against the fair value adjustment to the underlying hedged foreign currency borrowings for interest rate risk.

### (iii) Liquidity risk management

Liquidity risk considers the risk that the Group could encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. There is no significant concentration of liquidity risk.

Group funding and liquidity is managed by ensuring that sufficient facilities are available from diverse funding sources with an appropriate spread of debt maturities to match the underlying assets. The Group uses cash flow forecasts to constantly monitor the funding requirements of the Group.

Group businesses are funded from cash generated from operations, borrowings from banks and senior notes from capital markets. It is Group policy to ensure that:

- sufficient facilities are available to cover its gross forecast debt by at least 1.25 times; and
- 75% of total facilities available are committed.

Both targets were met at 31 December 2012 and 2011.

Funding is sourced from banks via syndicated and bilateral arrangements and from institutional investors.

All Group credit facilities are arranged and managed by Group Treasury and approved by the Board of Directors. Where possible, facilities have common security, financial covenants and terms and conditions.

At 31 December 2012, the Group had undrawn committed bank facilities of **€449.0m** (2011: €355.0m), and a portfolio of undrawn standby facilities amounting to **€292.0m** (2011: €205.0m). The undrawn committed facilities comprise primarily of a revolving credit facility maturing between 3 – 4 years (2011: between 4 – 5 years).

## Notes to the Financial Statements

### 23. Financial instruments (continued)

#### (iii) Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity of its non-derivative financial instruments excluding trade and other receivables (note 18) and trade and other payables (note 19). This information has been drawn up based on the undiscounted cash flows of financial liabilities to the earliest date on which the Group can be required to repay. The analysis includes both interest commitments and principal cash flows. To the extent that interest rates are floating, the rate used is derived from interest rate yield curves at the end of the reporting date and are as such subject to change based on market movements.

	On demand & up to 1 year €'m	Up to 2 years €'m	2 – 5 years €'m	> 5 years €'m	Total €'m
Bank loans	38.4	–	547.2	–	585.6
Senior notes	174.3	–	387.3	309.3	870.9
Borrowings	212.7	–	934.5	309.3	1,456.5
Deferred payments on acquisition of subsidiaries	9.2	1.0	–	0.6	10.8
	221.9	1.0	934.5	309.9	1,467.3
Interest commitments	43.5	41.2	70.8	55.0	210.5
<b>At 31 December 2012</b>	<b>265.4</b>	<b>42.2</b>	<b>1,005.3</b>	<b>364.9</b>	<b>1,677.8</b>

#### Reconciliation to net debt position:

Borrowings	212.7	–	934.5	309.3	1,456.5
Interest rate swaps	0.3	3.0	1.4	(78.6)	(73.9)
Senior notes – fair value adjustment	–	–	–	43.6	43.6
Cash at bank and in hand	(215.4)	–	–	–	(215.4)
<b>Total net debt as at 31 December 2012</b>	<b>(2.4)</b>	<b>3.0</b>	<b>935.9</b>	<b>274.3</b>	<b>1,210.8</b>

	On demand & up to 1 year €'m	Up to 2 years €'m	2 – 5 years €'m	> 5 years €'m	Total €'m
Bank overdrafts	0.9	–	–	–	0.9
Bank loans	38.1	0.1	637.4	–	675.6
Senior notes	–	178.3	246.0	465.1	889.4
Borrowings and overdrafts	39.0	178.4	883.4	465.1	1,565.9
Deferred payments on acquisition of subsidiaries	7.8	1.5	0.2	–	9.5
	46.8	179.9	883.6	465.1	1,575.4
Interest commitments	55.9	50.0	114.4	72.1	292.4
<b>At 31 December 2011</b>	<b>102.7</b>	<b>229.9</b>	<b>998.0</b>	<b>537.2</b>	<b>1,867.8</b>

Reconciliation to net debt position:					
Borrowings and overdrafts	39.0	178.4	883.4	465.1	1,565.9
Interest rate swaps	–	0.6	10.1	(84.0)	(73.3)
Senior notes – fair value adjustment	–	–	–	33.0	33.0
Cash at bank and in hand	(237.9)	–	–	–	(237.9)
<b>Total net debt as at 31 December 2011</b>	<b>(198.9)</b>	<b>179.0</b>	<b>893.5</b>	<b>414.1</b>	<b>1,287.7</b>

## 23. Financial instruments (continued)

### (iii) Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity of its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis. To the extent that the amounts payable or receivable are not fixed, the rate used is derived from interest rate yield curves at the end of the reporting date and are as such subject to change based on market movements.

	On demand & up to 1 year €'m	Up to 2 years €'m	2 – 5 years €'m	> 5 years €'m	Total €'m
Interest rate swaps inflow	20.2	19.5	60.1	89.9	189.7
Interest rate swaps outflow	(16.7)	(15.0)	(23.3)	(24.7)	(79.7)
<b>Net interest rate swaps inflow</b>	<b>3.5</b>	<b>4.5</b>	<b>36.8</b>	<b>65.2</b>	<b>110.0</b>
Forward foreign exchange contracts inflow	8.5	–	–	–	8.5
<b>At 31 December 2012</b>	<b>12.0</b>	<b>4.5</b>	<b>36.8</b>	<b>65.2</b>	<b>118.5</b>

	On demand & up to 1 year €'m	Up to 2 years €'m	2 – 5 years €'m	> 5 years €'m	Total €'m
Interest rate swaps inflow	23.5	22.9	60.5	123.4	230.3
Interest rate swaps outflow	(22.3)	(19.5)	(41.5)	(43.7)	(127.0)
<b>Net interest rate swaps inflow</b>	<b>1.2</b>	<b>3.4</b>	<b>19.0</b>	<b>79.7</b>	<b>103.3</b>
Forward foreign exchange contracts outflow	(15.1)	–	–	–	(15.1)
<b>At 31 December 2011</b>	<b>(13.9)</b>	<b>3.4</b>	<b>19.0</b>	<b>79.7</b>	<b>88.2</b>

Included in the interest rate swaps inflow amounts greater than 5 years is the foreign currency differential on final maturity of the cross currency interest rate swaps of €7.8m (2011: €nil) for between 2 – 5 years and €35.0m (2011: €51.5m) for greater than 5 years.

## Notes to the Financial Statements

### 23. Financial instruments (continued)

#### (iii) Liquidity risk management (continued)

##### Summary of borrowing arrangements

###### (a) Bank loans

Bank loans comprise committed term loan facilities, committed revolving credit facilities, bilateral term loans and other uncommitted facilities:

- Demand facilities;
- Syndicate revolving credit facilities of €1bn maturing between 3 – 4 years; and
- Bilateral term loans with maturities ranging from 1 to 2 years.

###### (b) 2003 Senior notes

The Group placed \$650m senior notes with US institutional investors in 2003, Tranche A of \$114m matured on 30 April 2010, the remaining two tranches mature as follows:

- Tranche B – maturing on 30 April 2013
- Tranche C – maturing on 30 April 2015

###### (c) 2010 Senior notes

The Group placed \$600m of senior notes with US institutional investors in four tranches with maturity as follows:

- Tranche A – maturing on 20 January 2017
- Tranche B – maturing on 20 January 2020
- Tranche C – maturing on 20 January 2022
- Tranche D – maturing on 20 January 2025

Both the committed syndicate facilities and the senior notes have financial covenants attached to them. The Group was in full compliance with these covenants as at 31 December 2012 and 2011.

The following table details the Group's non-derivative financial assets all of which are available on demand and have no fixed interest return:

	2012 €'m	2011 €'m
Cash at bank and in hand	215.4	237.9
Financial asset investments	18.8	19.3
	234.2	257.2



## 23. Financial instruments (continued)

### *(iv) Credit risk management*

Cash deposits and other financial assets give rise to credit risk on the amounts due from counter-parties.

The Group controls and monitors the distribution of this exposure by ensuring that all financial instruments are held with reputable and financially secure institutions and that exposure to credit risk is distributed across a number of institutions. At 31 December 2012 and 2011 all cash, short-term deposits and other liquid investments had a maturity of less than 3 months.

Credit risk exposure to financial institutions is actively managed across the portfolio of institutions by setting appropriate credit exposure limits. These levels are applied in controlling the level of material surplus funds that are placed with counter-parties and for controlling the institutions with which the Group enters into derivative contracts. In 2012 the metric for setting credit exposure limits is based on credit default swaps for those financial institutions, while previously the metric was based on credit ratings for those financial institutions.

The Group's exposure to its counter-parties is continuously monitored and the aggregate value of transactions entered into is spread amongst approved counter-parties.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable at operating unit level at least on a monthly basis.

The Group's maximum exposure to credit risk consists of gross trade receivables (note 18), cash deposits (note 22) and other financial assets (note 22), which are primarily interest rate swaps and foreign exchange contracts.

### *(v) Price risk*

The Group's exposure to equity securities price risk due to financial asset investments held is considered to be low as the level of securities held versus the Group's net assets is not material.

The Group purchases a variety of commodities which can experience price volatility. It is Group policy to manage commodity price risk commercially via back to back arrangements with customers, through forward purchasing and limited use of derivatives.

### *(vi) Fair value of financial instruments*

The fair value of financial assets and liabilities are determined as follows:

- assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- other financial assets and liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- derivative financial instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments. Forward foreign exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

## Notes to the Financial Statements

### 23. Financial instruments (continued)

#### (vi) Fair value of financial instruments (continued)

##### (a) Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, it is considered that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	Carrying Amount 2012 €'m	Fair Value 2012 €'m	Carrying Amount 2011 €'m	Fair Value 2011 €'m
<b>Financial assets</b>				
Trade and other receivables	706.1	706.1	709.8	709.8
Cash at bank and in hand	215.4	215.4	237.9	237.9
<b>Financial liabilities</b>				
Bank overdrafts	–	–	(0.9)	(0.9)
Bank loans	(585.6)	(585.6)	(675.6)	(675.6)
Senior notes	(870.9)	(939.1)	(889.4)	(951.1)
Trade and other payables	(1,149.8)	(1,149.8)	(1,136.9)	(1,136.9)
	(1,684.8)	(1,753.0)	(1,755.1)	(1,816.8)

The fair value of senior notes is determined using discounted cash flows based on risk-free rates adjusted for credit spreads applicable for comparable companies with comparable maturities at the balance sheet date.

##### (b) Fair value of financial instruments carried at fair value

Financial instruments recognised at fair value are analysed between those based on:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- those involving inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 2012 €'m	Level 2 2012 €'m	Level 3 2012 €'m	Level 1 2011 €'m	Level 2 2011 €'m	Level 3 2011 €'m
<b>Financial assets</b>						
Interest rate swaps	–	86.1	–	–	84.0	–
Forward foreign exchange contracts	–	10.0	–	–	1.4	–
Financial asset investments	14.7	–	4.1	11.1	–	8.2
<b>Financial liabilities</b>						
Forward foreign exchange contracts	–	(1.5)	–	–	(16.5)	–
Interest rate swaps	–	(12.2)	–	–	(10.7)	–

The reconciliation of Level 3 assets is provided in note 13. There have been no transfers between levels during the current and prior year.

## 24. Provisions

	Insurance €'m	Non-Trading Items €'m	Other €'m	Total €'m
<b>Group:</b>				
At 1 January 2011	28.7	9.1	11.2	49.0
Provided and discounting released during the year	1.1	–	5.5	6.6
Utilised during the year	(0.3)	(4.3)	(0.2)	(4.8)
Transferred from/(to) payables and accruals	24.2	–	(17.1)	7.1
Exchange translation adjustment	0.7	–	0.6	1.3
<b>At 31 December 2011</b>	<b>54.4</b>	<b>4.8</b>	<b>–</b>	<b>59.2</b>
Provided during the year	7.7	13.4	–	21.1
Utilised during the year	–	(1.0)	–	(1.0)
Exchange translation adjustment	0.7	–	–	0.7
<b>At 31 December 2012</b>	<b>62.8</b>	<b>17.2</b>	<b>–</b>	<b>80.0</b>
			2012 €'m	2011 €'m
<b>Analysed as:</b>				
Current liabilities			42.3	26.1
Non-current liabilities			37.7	33.1
			<b>80.0</b>	<b>59.2</b>

### Insurance

The Group operates a level of self-insurance and under these arrangements the Group retains certain insurance exposure up to pre-determined self-insurance thresholds. These thresholds are reviewed on a regular basis to ensure they remain appropriate. The insurance provision represents amounts provided based on industry information, actuarial valuation and historical data in respect of claims that are classified as incurred but not reported and also the outstanding loss reserve. Both are covered by the Group's self-insurance schemes. The methodology of estimating the provision is periodically reviewed to ensure that the assumptions made continue to be appropriate. The utilisation of the provision is dependent on the timing of settlement of the outstanding claims. Historically, the average time for settlement of outstanding claims ranges from 3 – 6 years from claim date.

### Non-trading items

Restructuring provisions relate primarily to non-trading items incurred in 2012, the majority of which related to redundancy and contract compensation owing to people who are in the process of transitioning out of the business. These costs are expected to be paid within the year. The 2011 balance on this provision relates to outstanding contract compensation and costs relating to onerous leases that should expire within 3 years.

### Other

These provisions related primarily to the present value of costs associated with pension schemes relating to businesses that were restructured. The provision was calculated based on the rules associated with the plans and discounted at rates applicable to those plans. In 2011 a fixed payment schedule was agreed with the pension plan trustees and hence the balance was transferred to current and non-current payables and accruals (note 19 and note 21).

## Notes to the Financial Statements

### 25. Retirement benefits obligation

The Group operates post-retirement benefit plans in a number of its businesses throughout the world. These plans are structured to accord with local conditions and practices in each country they operate in and can include both defined contribution and defined benefit plans. The assets of the schemes are held, where relevant, in separate trustee administered funds.

#### (a) Recognition in the Consolidated Income Statement

The following amounts have been recognised in the Consolidated Income Statement in relation to defined contribution and defined benefit post-retirement plans:

	Notes	Post-Retirement		Post-Retirement	
		Pension 2012 €'m	Medical 2012 €'m	Pension 2011 €'m	Medical 2011 €'m
Current service cost relating to defined contribution schemes		17.1	–	15.9	–
Current service cost relating to defined benefit schemes		18.1	–	15.5	–
<b>Total current service cost</b>		<b>35.2</b>	<b>–</b>	<b>31.4</b>	<b>–</b>
Past service (gain)/cost		(1.1)	(0.1)	1.2	(1.4)
Expected return on pension schemes' assets		(44.1)	–	(46.4)	–
Interest on schemes' liabilities		52.8	0.2	50.8	0.2
Curtailment gains		(0.7)	–	(1.0)	–
<b>Included in staff costs</b>	<b>4</b>	<b>42.1</b>	<b>0.1</b>	<b>36.0</b>	<b>(1.2)</b>

#### Pension levy

During 2011, the Finance (No. 2) Act introduced an annual levy of 0.6% on the market value of assets held in pension schemes in Ireland from 2011 to 2014. The levy is payable on the value of assets at 30 June or the previous year end date. The levy for 2012 in respect of defined benefit members was €1.6m and was paid out of the pension funds in September 2012 reducing the overall expected return on pension schemes' assets. The levy for 2011 in respect of defined benefit members was €1.6m and was deducted from the overall actual return on pension schemes' assets in the Consolidated Statement of Recognised Income and Expense. The pension levy has been paid by the members of the defined contribution and additional voluntary contribution schemes and has been passed to the members of the defined benefit schemes through benefit reductions as resolved by the Trustees.

#### (b) Additional disclosures relating to the defined benefit plans

The Group operates defined benefit post-retirement schemes in a number of countries in which it operates, primarily in Ireland, the UK, the US and the Netherlands. The defined benefit plans operated by the Group mostly include final salary pension plans but also include career average salary pension plans and post-retirement medical plans. The post-retirement medical plans are in respect of a number of the Group's US employees.

The values used in the Group's financial statements are based on the most recent actuarial valuations and have been updated by the individual schemes' independent and professionally qualified actuaries to incorporate the requirements of IAS 19 'Employee Benefits' in order to assess the liabilities of the various schemes as at 31 December 2012 using the projected unit credit method. All assets in the schemes have been measured at their fair value at the balance sheet date.

Full actuarial valuations for funding purposes are carried out for the Group's pension plans in line with local requirements. The actuarial reports are not available for public inspection.

## 25. Retirement benefits obligation (continued)

### (b) Additional disclosures relating to the defined benefit plans (continued)

#### (i) Financial and demographic assumptions

The principal financial assumptions used by the Group's actuaries in order to calculate the post-retirement benefit schemes' liabilities at 31 December, which have been shown in range format to reflect the differing assumptions in each scheme, were as follows:

	2012 %	2011 %
Inflation assumption	1.70 – 2.80	1.90 – 3.00
Rate of increase in salaries	2.20 – 5.00	2.40 – 5.00
Rate of increase for pensions in payment and deferred pensions	1.70 – 3.00	1.90 – 3.00
Rate used to discount schemes' liabilities	3.50 – 4.65	4.00 – 5.20

The most significant demographic assumption is mortality. The mortality assumptions used are based on advice from the pension schemes' actuaries and reflect each scheme's population. The life expectancy of a member retiring at 31 December at age 65, now and in 20 years' time, which has been shown in range format to reflect the differing assumptions in each scheme, is as follows:

	2012 Years	2011 Years
Male – retiring now	19 – 23	19 – 22
Female – retiring now	21 – 25	21 – 25
Male – retiring in 20 years' time	19 – 25	19 – 25
Female – retiring in 20 years' time	21 – 26	21 – 26

The expected rates of return for each of the categories of schemes' assets are determined based on current market long term expectations for such rates and input from investment advisors. The rates of return on equities and property are based on current long term government bond yields (approximating risk free rates) plus an appropriate risk premium which assumes growth assets will outperform bonds over the long term. The long term rates of return on bond and cash investments are set in line with market yields currently available at the balance sheet date. The overall expected rate of return for each scheme is calculated by weighting the expected return on each category of asset by the anticipated balance in that asset category during the year in accordance with the scheme's investment strategy. The long term rates of return on each class of the pension schemes' assets expected at 31 December, shown as a range to reflect the differing returns in each scheme, were as follows:

	2012 %	2011 %
Equities	6.70 – 8.50	7.00 – 8.50
Bonds	2.00 – 6.00	2.50 – 6.00
Property	6.50 – 7.00	6.00 – 7.00
Other	0.50 – 8.00	0.50 – 8.00
Overall expected return on pension schemes' assets	2.90 – 7.50	3.00 – 7.60

## Notes to the Financial Statements

### 25. Retirement benefits obligation (continued)

#### (i) Financial and demographic assumptions (continued)

There are inherent uncertainties surrounding the financial and demographic assumptions adopted by the Group. The assumptions may differ from the actual data as a result of changes in economic and market conditions as well as the actual experience within each scheme. The present value of post-retirement benefit schemes' liabilities is heavily dependent on the discount rate. As the discount rate is based on a market driven measure, which is the interest yield on high quality corporate bonds at the balance sheet date, the present value of post-retirement benefit schemes' liabilities can fluctuate significantly from valuation to valuation. The expected rate of inflation impacts the schemes' liabilities in that inflation is the basis for the calculation of the assumed future salary and revaluation increases in each scheme where applicable. In relation to demographic assumptions, differing expectations regarding current and future changes in mortality rates can have a significant impact on schemes' liabilities.

The table below gives an approximate indication of the impact of a change in the principal financial actuarial assumptions (the discount rate and the inflation rate) and the principal demographic actuarial assumption (mortality). The impact on the schemes' liabilities at 31 December 2012 is on the basis that only that assumption is changed with all other assumptions remaining unchanged.

Assumption	Change in assumption	Impact on schemes' liabilities
Discount rate	Increase/decrease of 0.25%	Decrease/increase of 4.95%
Inflation rate	Increase/decrease of 0.25%	Increase/decrease of 3.95%
Mortality	Increase/decrease in life expectancy of 1 year	Increase/decrease of 2.60%

#### (ii) Recognition in the Consolidated Statement of Recognised Income and Expense

The following amounts, in relation to defined benefit plans, have been recognised in the Consolidated Statement of Recognised Income and Expense:

	Post-Retirement		Post-Retirement	
	Pension 2012 €'m	Medical 2012 €'m	Pension 2011 €'m	Medical 2011 €'m
Actual return less expected return on pension schemes' assets	35.1	–	(62.9)	–
Experience gains on schemes' liabilities	7.2	0.3	6.6	–
Changes in assumptions underlying the present value of the schemes' liabilities	(95.9)	(0.2)	(55.8)	(0.4)
<b>Actuarial (losses)/gains recognised in the Consolidated Statement of Recognised Income and Expense</b>	<b>(53.6)</b>	<b>0.1</b>	<b>(112.1)</b>	<b>(0.4)</b>
<b>Cumulative amount of actuarial (losses)/gains recognised in the Consolidated Statement of Recognised Income and Expense</b>	<b>(376.5)</b>	<b>1.7</b>	<b>(322.9)</b>	<b>1.6</b>
Actual return on schemes' assets for the year	79.2	N/A	(16.5)	N/A

#### Changes in assumptions

Within changes in assumptions underlying the present value of the schemes' liabilities, the decrease in discount rates, in both 2012 and 2011, across the main defined benefit schemes in the Group gave rise to the majority of the loss. This loss was partially offset by a decrease in the inflation rate assumption in some countries.

## 25. Retirement benefits obligation (continued)

### (iii) Reconciliations for defined benefit plans

The movements in the defined benefit schemes' obligation during the year were:

	Pension 2012 €'m	Post- Retirement Medical 2012 €'m	Pension 2011 €'m	Post- Retirement Medical 2011 €'m
Present value of schemes' liabilities at beginning of year	(1,041.0)	(3.8)	(929.0)	(4.8)
Current service cost	(18.1)	–	(15.5)	–
Past service gain/(cost)	1.5	–	(2.4)	1.2
Interest on schemes' liabilities	(52.8)	(0.2)	(50.8)	(0.2)
Curtailement gains	0.7	–	1.0	–
Contributions by employees	(9.8)	(0.2)	(10.5)	(0.2)
Benefits paid	30.5	0.6	32.0	0.6
Actuarial (losses)/gains	(88.7)	0.1	(49.2)	(0.4)
Other movements	(0.3)	–	–	–
Exchange translation adjustment	(13.4)	0.1	(16.6)	–
<b>Present value of schemes' liabilities at end of year</b>	<b>(1,191.4)</b>	<b>(3.4)</b>	<b>(1,041.0)</b>	<b>(3.8)</b>
<b>Present value of schemes' liabilities at end of year that relates to:</b>				
Wholly unfunded plans	(23.0)	(3.4)	(17.0)	(3.8)
Wholly or partly funded plans	(1,168.4)	–	(1,024.0)	–
	(1,191.4)	(3.4)	(1,041.0)	(3.8)

The movements in the schemes' assets during the year were:

	Pension 2012 €'m	Post- Retirement Medical 2012 €'m	Pension 2011 €'m	Post- Retirement Medical 2011 €'m
Fair value of assets in plans at beginning of year	764.2	–	737.3	–
Expected return on pension schemes' assets	44.1	–	46.4	–
Contributions by employer	50.2	0.4	52.6	0.4
Contributions by employees	9.8	0.2	10.5	0.2
Benefits paid	(30.5)	(0.6)	(32.0)	(0.6)
Actuarial gains/(losses)	35.1	–	(62.9)	–
Exchange translation adjustment	10.3	–	12.3	–
<b>Fair value of assets in plans at end of year</b>	<b>883.2</b>	<b>–</b>	<b>764.2</b>	<b>–</b>



## Notes to the Financial Statements

### 25. Retirement benefits obligation (continued)

#### (iii) Reconciliations for defined benefit plans (continued)

The fair values of each of the categories of the pension schemes' assets at 31 December were as follows:

	Pension 2012 €'m	Pension 2011 €'m
Equities	547.1	469.6
Bonds	292.4	250.0
Property	7.0	8.6
Other	36.7	36.0
<b>Total fair value of pension schemes' assets</b>	<b>883.2</b>	<b>764.2</b>

The schemes' assets are invested with professional investment managers or in insurance contracts. Investments in the Group's own financial instruments, if any, are solely at the discretion of the investment managers concerned. The actual amount of the Group's own financial instruments held by the pension schemes during 2012 and 2011 were not material. No property held by the pension schemes was occupied by the Group nor were any other pensions schemes' assets used by the Group during 2012 or 2011.

During the year ending 31 December 2013, the Group expects to make contributions of approximately €55.7m in relation to its defined benefit plans.

#### (iv) Amounts recognised in the Consolidated Balance Sheet

The Group's net defined benefit post-retirement schemes' deficit at 31 December, which has been recognised in the Consolidated Balance Sheet, was as follows:

	Pension 2012 €'m	Post- Retirement Medical 2012 €'m	Total 2012 €'m	Pension 2011 €'m	Post- Retirement Medical 2011 €'m	Total 2011 €'m
Present value of schemes' liabilities	(1,191.4)	(3.4)	(1,194.8)	(1,041.0)	(3.8)	(1,044.8)
Fair value of assets in plans	883.2	–	883.2	764.2	–	764.2
Net deficit	(308.2)	(3.4)	(311.6)	(276.8)	(3.8)	(280.6)
Unrecognised past service cost	2.8	–	2.8	3.1	–	3.1
<b>Net recognised deficit in plans before deferred tax</b>	<b>(305.4)</b>	<b>(3.4)</b>	<b>(308.8)</b>	<b>(273.7)</b>	<b>(3.8)</b>	<b>(277.5)</b>
Net related deferred tax asset	62.0	1.3	63.3	63.5	1.5	65.0
<b>Net recognised deficit in plans after deferred tax</b>	<b>(243.4)</b>	<b>(2.1)</b>	<b>(245.5)</b>	<b>(210.2)</b>	<b>(2.3)</b>	<b>(212.5)</b>

## 25. Retirement benefits obligation (continued)

### (v) Historical information

The history of the net deficit and experience gains and losses in the defined benefit schemes for the current and four previous years at 31 December are as follows:

	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m
<b>Defined benefit pension schemes</b>					
Present value of schemes' liabilities	(1,191.4)	(1,041.0)	(929.0)	(791.9)	(639.5)
Fair value of plans' assets	883.2	764.2	737.3	604.4	492.8
<b>Net deficit in defined benefit pension plans</b>	<b>(308.2)</b>	<b>(276.8)</b>	<b>(191.7)</b>	<b>(187.5)</b>	<b>(146.7)</b>
Experience gains/(losses) on schemes' liabilities	7.2	6.6	2.5	(5.6)	(16.5)
Experience gains/(losses) on schemes' assets	35.1	(62.9)	35.8	45.3	(215.2)
<b>Defined benefit post-retirement medical schemes</b>					
Present value of schemes' liabilities	(3.4)	(3.8)	(4.8)	(8.6)	(10.7)
Experience gains/(losses) on schemes' liabilities	0.3	–	0.4	1.0	(0.1)
<b>Total defined benefit schemes</b>					
<b>Net recognised deficit in plans after deferred tax</b>	<b>(245.5)</b>	<b>(212.5)</b>	<b>(144.6)</b>	<b>(141.4)</b>	<b>(115.6)</b>

## 26. Amendments to IAS 19 (revised)

The Group will transition to the revised IAS 19 (amendment) "Employee Benefits" from 1 January 2013 as noted in Note 1. The Group estimates that the adoption of the revised IAS 19 would result in an additional pension charge to the Consolidated Income Statement for the year ended 31 December 2012 of €8.6m. This is due to the increase in the net interest cost. As at 31 December 2012, the Group has €2.8m of unrecognised past service costs which are required to be recognised under the revised standard. This recognition would result in an increase in the net deficit. The Group currently recognises all actuarial gains and losses immediately in the Consolidated Statement of Recognised Income and Expense, as required by the revised standard.

From 1 January 2013, the Group intends to report the net interest cost associated with defined benefit pension schemes within finance costs in the Consolidated Income Statement, previously shown in staff costs. Under the revised IAS 19, which gives rise to a total pension cost of €50.8m, the Group estimates that this change would result in a decrease in staff costs of €4.3m and a corresponding increase in finance costs of €12.9m for the year ended 31 December 2012.

The pension charge for the year ended 31 December 2013 is expected to be in line with the 2012 revised pension charge.

	2012 As reported €'m	2012 Revised €'m
<b>Consolidated Income Statement</b>		
Pension cost included in staff costs	42.2	37.9
Pension cost included in finance costs	–	12.9
<b>Consolidated Balance Sheet</b>		
<b>Net recognised deficit in plans after deferred tax</b>	<b>(245.5)</b>	<b>(248.3)</b>

## Notes to the Financial Statements

### 27. Share capital

	2012 €'m	2011 €'m
Group and Company:		
Authorised		
280,000,000 A ordinary shares of 12.50 cent each	35.0	35.0
Allotted, called-up and fully paid (A ordinary shares of 12.50 cent each)		
At beginning of year	21.9	21.9
Shares issued during year	–	–
At end of year	21.9	21.9

The Company has one class of ordinary share which carries no right to fixed income.

#### *Shares issued*

During 2012 a total of **91,851** (2011: 17,606) A ordinary shares, each with a nominal value of 12.50 cent, were issued at nominal value per share under the Long Term Incentive Plan.

The total number of shares in issue at 31 December 2012 was **175,626,663** (2011: 175,534,812).

#### *Share buy back programme*

At the 2012 Annual General Meeting shareholders passed a resolution authorising the Company to purchase up to 5% of its own issued share capital which was not exercised in the year. In 2012 and 2011 no shares were purchased under this programme.

## 28. Share-based payments

The Group operates an equity settled Long Term Incentive Plan (LTIP), under which an invitation to participate was made to executive Directors and senior executives. These invitations were made on five occasions to date: July 2006, March 2009, March 2010, March 2011 and April 2012. The proportion of each invitation which vests will depend on the Total Shareholder Return (TSR) and Earnings Per Share (EPS) performance of the Group during a three year period ("the performance period"). A proportion of invitations made in 2009 vested during 2012. The invitations made in 2010, 2011 and 2012 will potentially vest three years after invitation date if targets set are achieved.

Up to 50% of the shares/options subject to an invitation will vest according to the Group's TSR performance during the performance period measured against the TSR performance of a peer group of listed companies. The remaining 50% of the shares/options subject to an invitation will vest according to the Group's adjusted EPS growth performance compared with the inflation adjusted targets during the performance period. An invitation may lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 31 December and the changes during the year is presented below:

	Notes	Number of Conditional Awards 2012	Number of Conditional Awards 2011
Outstanding at beginning of year		460,966	337,360
Forfeited		(16,283)	–
Shares vested	27	(86,241)	–
Share options vested		(98,269)	–
New conditional awards		105,717	123,606
<b>Outstanding at end of year</b>		<b>365,890</b>	<b>460,966</b>

	Notes	Number of Share Options 2012	Number of Share Options 2011
<b>Share options arising under the LTIP</b>			
Outstanding at beginning of year		79,580	97,186
Vested		98,269	–
Exercised	27	(5,610)	(17,606)
<b>Outstanding and exercisable at end of year</b>		<b>172,239</b>	<b>79,580</b>

Share options under the LTIP scheme have an exercise price of 12.5 cent. The remaining weighted average life for share options outstanding is **5.18 years** (2011: 4.75 years). The weighted average share price at the date of exercise was **€35.62** (2011: €27.11).

## Notes to the Financial Statements

### 28. Share-based payments (continued)

At the invitation grant date, the fair value per conditional award and the assumptions used in the calculations are as follows:

	2012 Conditional Award at Grant Date	2011 Conditional Award at Grant Date	2010 Conditional Award at Grant Date	2009 Conditional Award at Grant Date
Share price at grant date	€33.45	€26.50	€23.75	€14.30
Exercise price per share/options	€0.125	€0.125	€0.125	€0.125
Expected volatility	25.5%	32.6%	34.9%	31.1%
Expected life	3 years	3 years	3 years	3 years
Risk free rate	0.6%	1.9%	1.5%	2.0%
Expected dividend yield	1.1%	1.2%	1.0%	1.0%
Expected forfeiture rate	5.0%	5.0%	5.0%	5.0%
Weighted average fair value at grant date	€26.99	€21.28	€19.52	€12.16
Valuation model	Monte Carlo Pricing	Monte Carlo Pricing	Monte Carlo Pricing	Monte Carlo Pricing

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. Market based vesting conditions, such as the TSR condition, have been taken into account in establishing the fair value of equity instruments granted. Non-market based performance conditions, such as the EPS condition, were not taken into account in establishing the fair value of equity instruments granted, however the number of equity instruments included in the measurement of the transaction is adjusted so that the amount recognised is based on the number of equity instruments that eventually vest.

The Group and the Company recognised an expense of **€2.4m** (2011: €2.0m) related to equity-settled share-based payment transactions in the Consolidated Income Statement during the year. The expectation of meeting performance criteria was taken into account when calculating this expense.

## 29. Cash flow components

	Notes	Group 2012 €'m	Group 2011 €'m	Company 2012 €'m	Company 2011 €'m
Profit before taxation		324.1	433.4	92.1	26.7
Intangible asset amortisation	12	23.4	19.3	–	–
Acquisition integration and restructuring related costs	5	120.2	10.7	–	–
Loss/(profit) on disposal of businesses	5	35.3	(17.3)	–	–
Loss on disposal of non-current assets	5	2.5	8.4	–	–
Finance income	6	(1.1)	(0.9)	–	–
Finance costs	6	50.3	46.9	–	–
<b>Trading profit</b>		<b>554.7</b>	<b>500.5</b>	<b>92.1</b>	<b>26.7</b>
<b>Change in working capital</b>					
Decrease/(increase) in inventories		18.7	(82.2)	–	–
Decrease/(increase) in trade and other receivables		15.8	(56.6)	–	10.0
(Decrease)/increase in trade and other payables		(43.1)	133.0	(35.1)	13.0
Long term incentive plan expense	28	2.4	2.0	2.4	2.0
		(6.2)	(3.8)	(32.7)	25.0
<b>Purchase of non-current assets</b>					
Purchase of property, plant and equipment		(140.9)	(144.3)	–	–
Purchase of intangible assets	12	(22.8)	(29.7)	–	–
Purchase of financial assets	13	(3.8)	–	–	–
		(167.5)	(174.0)	–	–
<b>Net movement on bank borrowings</b>					
Cash received		107.5	640.5	–	–
Cash paid		(196.1)	(407.5)	–	–
		(88.6)	233.0	–	–
<b>Cash and cash equivalents</b>					
Cash at bank and in hand	22	215.4	237.9	0.1	–
Bank overdrafts	22	–	(0.9)	–	(1.1)
		215.4	237.0	0.1	(1.1)

## Notes to the Financial Statements

### 30. Business combinations

During 2012, the Group completed six bolt on acquisitions, all of which are 100% owned by the Group.

		Acquiree's Carrying Amount Before Combination 2012 €'m	Fair Value Adjustments 2012 €'m	Total 2012 €'m
	Notes			
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>				
<i>Non-current assets</i>				
Property, plant and equipment	11	21.3	(2.1)	19.2
Brand related intangibles	12	–	66.1	66.1
<i>Current assets</i>				
Inventories		15.0	(0.3)	14.7
Trade and other receivables		15.5	(0.2)	15.3
<i>Current liabilities</i>				
Trade and other payables		(21.7)	(0.5)	(22.2)
<i>Non-current liabilities</i>				
Other non-current liabilities		(0.4)	(3.9)	(4.3)
<b>Total identifiable assets</b>		<b>29.7</b>	<b>59.1</b>	<b>88.8</b>
Goodwill	12			88.5
<b>Total consideration</b>				<b>177.3</b>
<b>Satisfied by:</b>				
Cash				174.7
Deferred payment				2.6
				177.3

The acquisition method of accounting has been used to consolidate the businesses acquired in the Group's financial statements. Since the valuation of the fair value of assets and liabilities recently acquired is still in progress, the above values are determined provisionally. Due to the fact that the main prior year acquisitions were completed near the end of 2011, there have been revisions of the provisional fair value adjustments since the initial values were established. These revisions were not material. The cash discharged figure above includes €0.3m of net debt taken over at the date of acquisition.

The goodwill is attributable to the expected profitability, revenue growth, future market development and assembled workforce of the acquired businesses and the synergies expected to arise within the Group after the acquisition. €9.1m of goodwill recognised is expected to be deductible for income tax purposes.

Transaction expenses related to these acquisitions of €0.6m were charged against acquisition integration and restructuring costs in the Group's Consolidated Income Statement during the year.

The fair value of the financial assets includes trade and other receivables with a fair value of €15.3m and a gross contractual value of €15.6m.



### 30. Business combinations (continued)

In June and September 2012, the Group acquired the business and certain assets of Angsana Food Industries Sdn. Bhd. and Shanghai Angsana Food Co. Ltd, respectively. The acquired businesses which are based in Malaysia and China, manufacture and supply savoury and sweet ingredients products to a range of customers primarily located in Asia.

In July 2012 the Group acquired Food Spectrum Group Pty Limited, a specialist provider of food ingredients and aseptic solutions based in Australia.

The Group acquired Griffith do Brasil, a specialist manufacturer of meat systems, flavours and texturant systems for a range of customers primarily located in Brazil in August 2012.

In August 2012 the Group acquired Millennium Foods, LLC. The acquired company, based in the US, manufactures flavourings and food formulations for a range of customers primarily located in the US.

The Group acquired Big Train Industries, Inc. in December 2012. Based in the US, the company develops and produces branded speciality beverage products for foodservice and retail markets.

Due to the rapid integration of the acquired businesses into the Group's current structure, involving all aspects of business activities such as manufacturing, commercial, finance and IT, separate disclosure of the acquisitions' revenues and profit or loss is impracticable.

### 31. Contingent liabilities

	2012 €'m	2011 €'m
<b>Company:</b>		
(a) Guarantees in respect of borrowings of subsidiaries	1,456.5	1,565.9

(b) For the purposes of Section 17 of the Companies (Amendment) Act, 1986, the Company has undertaken by Board resolution to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland, as set out in note 36, in respect of all losses and liabilities as referred to in Section 5(c) of the Companies (Amendment) Act, 1986 for the financial year ending on 31 December 2012 or any amended financial period incorporating the said financial year. The Company has given similar indemnities in relation to its subsidiaries in the Netherlands and Luxembourg (Article 70 of the Luxembourg law of 19 December 2002 as amended), as set out in note 36. In addition, the Company has also availed of the exemption from filing subsidiary financial statements in Luxembourg.

The Company does not expect any material loss to arise from these guarantees and considers their fair value to be negligible.

## Notes to the Financial Statements

### 32. Other financial commitments

(a) Commitments for the acquisition of property, plant, equipment and computer software at 31 December for which no provision has been made in the accounts are as follows:

	2012 €'m	2011 €'m
Group:		
Commitments in respect of contracts placed	25.5	38.1
Expenditure authorised by the Directors but not contracted for at year end	103.6	49.0
	129.1	87.1

(b) At the balance sheet date the Group had commitments under non-cancellable operating leases which fall due as follows:

	2012 €'m	2011 €'m
Within 1 year	28.9	28.0
Within 2 to 5 years	47.6	46.8
After 5 years	19.8	20.2
	96.3	95.0

The operating lease charges during 2012 amounted to €28.7m (2011: €31.8m).

The Group leases various buildings, plant and machinery and motor vehicles under non-cancellable lease arrangements. The Group has a number of leases but none of these leases are individually material. The leases have various terms, escalation clauses and renewal rights. The leases typically range from less than 1 year to 65 years.

### 33. Related party transactions

#### *(a) Trading with Directors*

In their ordinary course of business as farmers, certain Directors have traded on standard commercial terms with the Group's Agribusiness Division. Aggregate purchases from, and sales to, these Directors amounted to **€1.1m** (2011: €1.0m) and **€0.4m** (2011: €0.3m) respectively. The trading balance outstanding to the Group at the year end was **€0.05m** (2011: €0.02m).

All transactions with Directors were on standard commercial terms. The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the year for bad or doubtful debts in respect of amounts owed by Directors.

#### *(b) Trading between Parent Company and subsidiaries*

Transactions in the year between the Parent Company and its subsidiaries included dividends received of **€100.0m** (2011: €34.0m) and cost recharges of **€3.5m** (2011: €3.6m).

#### *(c) Trading with other related parties*

Kerry Co-operative Creameries Limited is considered to be a related party of the Group as a result of its significant shareholding in the Parent Company and the number of Directors in common as detailed in the Report of the Directors. During 2012, dividends of **€10.0m** (2011: €11.3m) were paid to Kerry Co-operative Creameries Limited based on its shareholding.

#### *(d) Transactions with key management personnel*

The Board of Directors are deemed to be key management personnel of Kerry Group plc as they are responsible for planning, directing and controlling the activities of the Group.

In addition to their salaries, the Group also contributes to post employment defined benefit plans on behalf of the Executive Directors and these Directors also participate in the Group's Long Term Incentive Plan (LTIP) (note 25 and 28).

Remuneration cost of key management personnel is as follows:

	2012 €'m	2011 €'m
Short-term benefits (salaries, fees and other short-term benefits)	5.4	4.9
Post-retirement benefits	0.7	0.5
LTIP accounting charge	1.7	1.4
Other long-term benefits	–	–
Termination benefits	–	–
<b>Total</b>	<b>7.8</b>	<b>6.8</b>

Details of the remuneration of the Group's individual Directors, together with the number of Kerry Group plc shares owned by them and their interest in the LTIP are set out in the Report of the Directors on pages 68 to 71.

Dividends totalling **€0.2m** (2011: €0.1m) were also received by key management personnel during the year, based on their personal interests in the shares of the company.

## Notes to the Financial Statements

### 34. Events after the balance sheet date

Since the year end, the Group has:

- reached agreement to acquire Cape Town, South Africa based Orley Foods – a leading manufacturer and supplier of sweet ingredient solutions to food manufacturers and foodservice providers in South Africa. The transaction has already achieved regulatory approval and is scheduled to be completed in March 2013; and
- proposed a final dividend of 25.00 cent per A ordinary share (note 10).

There have been no other significant events, outside the ordinary course of business, affecting the Group since 31 December 2012.

### 35. Reserves

#### *Capital redemption reserve*

Capital redemption reserve represents the nominal cost of the cancelled shares in 2007.

#### *Capital conversion reserve fund*

The capital conversion reserve fund represents the amount transferred to reserves as a result of renominating the share capital of the parent company due to the euro conversion in 2002.

#### *Long term incentive plan reserve*

The long term incentive plan reserve relates to invitations made to employees to participate in the Group's Long Term Incentive Plan. Further information in relation to this share-based payment is set out in note 28.

#### *Translation reserve*

Exchange differences relating to the translation of the balance sheets of the Group's foreign currency operations from their functional currencies to the Group's presentation currency (Euro) are recognised directly in other comprehensive income and accumulated in the translation reserve.

#### *Hedging reserve*

The hedging reserve represents the effective portion of gains and losses on hedging instruments from the application of cash flow hedge accounting for which the underlying hedged transaction is not impacting profit or loss. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss.

#### *Retained earnings*

Retained earnings refers to the portion of net income which is retained by the Group rather than distributed to shareholders as dividends.

### 36. Principal subsidiaries

Country	Company Name	Nature of Business	Registered Office
Ireland	Breeo Brands Limited	Consumer Foods	1
	Breeo Enterprises Limited	Consumer Foods	1
	Breeo Foods Limited	Consumer Foods	1
	Carteret Investments	Investment	1
	Charleville Research Limited	Services	1
	Cuarto Limited	Ingredients & Flavours	1
	Dawn Dairies Limited	Consumer Foods	1
	Duffy Meats Limited	Consumer Foods	1
	Dynaboo Limited	Consumer Foods	1
	Fambee Limited	Consumer Foods	1
	Freshways Limited	Consumer Foods	1
	Glenealy Farms (Turkeys) Limited	Consumer Foods	1
	Golden Vale Clare Limited	Investment	1
	Golden Vale Dairies Limited	Agribusiness	1
	Golden Vale Food Products Limited	Ingredients & Flavours	1
	Golden Vale Holdings Limited	Investment	1
	Golden Vale Investments Limited	Investment	1
	Golden Vale Limerick Limited	Consumer Foods	1
	Golden Vale Limited	Investment	1
	Henry Denny & Sons (Ireland) Limited	Consumer Foods	1
	Irish Cold Stores Limited	Consumer Foods	1
	Kerry Agribusiness Holdings Limited	Investment	1
	Kerry Agribusiness Trading Limited	Agribusiness	1
	Kerry Creameries Limited	Agribusiness	1
	Kerry Farm Supplies Limited	Agribusiness	1
	Kerry Food Ingredients (Cork) Limited	Ingredients & Flavours	1
	Kerry Group Business Services Limited	Services	1
	Kerry Group Financial Services	Services	1
	Kerry Group Services International Limited	Services	1
	Kerry Group Services Limited	Services	1
	Kerry Holdings (Ireland) Limited	Investment	1
	Kerry Ingredients & Flavours Limited	Ingredients & Flavours	1
	Kerry Ingredients (Ireland) Limited	Ingredients & Flavours	1
	Kerry Ingredients Holdings (Ireland) Limited	Investment	1
	Kerry Ingredients Trading Limited	Ingredients & Flavours	1
	Kerry Treasury Services Limited	Services	1
	Kerrykreem Limited	Consumer Foods	1
	Lifesource Foods Research Limited	Consumer Foods	1
	National Food Ingredients Limited	Ingredients & Flavours	1
	Newmarket Co-operative Creameries Limited	Ingredients & Flavours	1
	Newmarket Marketing Company Limited	Ingredients & Flavours	1
	Newmarket Farms Limited	Ingredients & Flavours	1
	Newmarket Retail Limited	Ingredients & Flavours	1
	Pixundo Limited	Consumer Foods	1
	Plassey Holdings Limited	Investment	1
	Platters Food Company Limited	Consumer Foods	1
	Princemark Holdings Limited	Services	1
Quandu Limited	Consumer Foods	1	
Rye Developments Limited	Services	1	

## Notes to the Financial Statements

### 36. Principal subsidiaries (continued)

Country	Company Name	Nature of Business	Registered Office
Ireland	Rye Investments Limited	Consumer Foods	1
	Rye Valley Foods Limited	Consumer Foods	1
	Snowcream (Midlands) Limited	Agribusiness	1
	Tacna Investments Limited	Investment	1
	Trundu Limited	Consumer Foods	1
	William Blake Limited	Ingredients & Flavours	1
	Zenbury International Limited	Services	1
UK	Breeo Food Products (NI) Limited	Consumer Foods	2
	Henry Denny & Sons (NI) Limited	Consumer Foods	2
	Dairy Produce Packers Limited	Ingredients & Flavours	3
	Golden Cow Dairies Limited	Consumer Foods	3
	Golden Vale (NI) Limited	Investment	3
	Leckpatrick Dairies Limited	Consumer Foods	3
	Leckpatrick Holdings Limited	Investment	3
	Diversity Foods Limited	Consumer Foods	4
	Kerry Foods Limited	Consumer Foods	4
	Kerry Foods Distribution Limited	Consumer Foods	4
	Kerry Holdings (U.K.) Limited	Investment	4
	Kerry Savoury Foods Limited	Consumer Foods	4
	Noon Group Limited	Consumer Foods	4
	Noon Products Limited	Consumer Foods	4
	Dairyborn Foods Limited	Ingredients & Flavours	5
	Cereal Innovations Limited	Ingredients & Flavours	6
	Dale Country Foods Limited	Ingredients & Flavours	6
	EBI Foods Limited	Ingredients & Flavours	6
	Gordon Jopling (Foods) Limited	Ingredients & Flavours	6
	Kerry Ingredients (UK) Limited	Ingredients & Flavours	6
	Kerry Ingredients Holdings (U.K.) Limited	Investment	6
	Peak Ingredients Limited	Ingredients & Flavours	6
	Titusfield Limited	Ingredients & Flavours	6
Kerry Flavours UK Limited	Ingredients & Flavours	6	
Spicemanns Limited	Ingredients & Flavours	7	
SpringThyme Oils Limited	Ingredients & Flavours	8	
Belgium	Dera Holding NV	Ingredients & Flavours	9
Netherlands	Kerry (NL) B.V.	Ingredients & Flavours	10
	Kerry Group B.V.	Investment	10
Czech Republic	Dera Food Technology CZ SRO.	Ingredients & Flavours	11
France	Kerry Foods France S.A.S.	Ingredients & Flavours	12
	Kerry Ingredients France S.A.S.	Ingredients & Flavours	13
	Kerry Ingredients Holdings (France) S.A.S.	Investment	13
	Kerry Savoury Ingredients France S.A.S.	Ingredients & Flavours	14
	Kerry Flavours France S.A.S.	Ingredients & Flavours	14
Germany	Kerry Food GmbH.	Ingredients & Flavours	15
	Kerry Ingredients GmbH.	Ingredients & Flavours	15
	Sucrest GmbH.	Ingredients & Flavours	16
	Vicos Nahrungsmittel	Ingredients & Flavours	16
Belarus	Vitella Vitebsk	Ingredients & Flavours	17
Denmark	Crema Ingredients A/S	Ingredients & Flavours	18
Italy	Kerry Ingredients & Flavours Italia S.p.A.	Ingredients & Flavours	19
Poland	Kerry Polska Sp. z.o.o.	Ingredients & Flavours	20

### 36. Principal subsidiaries (continued)

Country	Company Name	Nature of Business	Registered Office	
Hungary	Kerry Hungaria KFT.	Ingredients & Flavours	21	
Luxembourg	Kerry Luxembourg S.a.r.l.	Services	22	
	Zenbury International Limited S.a.r.l.	Services	22	
Romania	Dera Food Technology ROM SRL	Ingredients & Flavours	23	
Russia	Kerry Limited Liability Company	Ingredients & Flavours	24	
	OOO Sucrest	Ingredients & Flavours	25	
Egypt	Kerry Bio-Science Egypt Misr L.L. Co.	Ingredients & Flavours	26	
South Africa	Kerry Ingredients South Africa (Pty) Limited	Ingredients & Flavours	27	
Slovakia	Dera SK SRO	Ingredients & Flavours	28	
Ukraine	Dera Limited	Ingredients & Flavours	29	
USA	Big Train Industries, Inc.	Ingredients & Flavours	30	
	Flavurence Corporation	Ingredients & Flavours	31	
	GB Seasonings Inc.	Ingredients & Flavours	31	
	Geneva Flavors Inc.	Ingredients & Flavours	31	
	Guernsey Bel, Inc.	Ingredients & Flavours	31	
	Kerry Biofunctional Ingredients Inc.	Ingredients & Flavours	31	
	Kerry Holding Co.	Investment	31	
	Kerry Inc.	Ingredients & Flavours	31	
	Mastertaste Holding Co.	Investment	31	
	Nuvex Ingredients Inc.	Ingredients & Flavours	31	
	Kerry Flavor Systems US LLC	Ingredients & Flavours	31	
	Hickory Specialties Inc.	Ingredients & Flavours	32	
	Oregon Chai, Inc.	Ingredients & Flavours	33	
	Stearns & Lehman, Inc.	Ingredients & Flavours	34	
	Presco Food Seasonings Inc.	Ingredients & Flavours	35	
	Kerry Finance (US) LLC	Services	36	
	Kerry SG Acquisition Company	Investment	37	
	Millennium Foods, LLC	Ingredients & Flavours	38	
	Canada	Kerry (Canada) Inc.	Ingredients & Flavours	39
		Rector Foods Limited	Ingredients & Flavours	40
Mexico	Kerry Ingredients (de Mexico) S.A. de C.V.	Ingredients & Flavours	41	
Brazil	Kerry do Brasil Ltda.	Ingredients & Flavours	42	
	Vittaflavour Ltda.	Ingredients & Flavours	43	
	Kerry de Amazonia Ingredientes e Aromas Limitada	Ingredients & Flavours	43	
	Laboratorios Griffith do Brasil S.A.	Ingredients & Flavours	44	
Costa Rica	Prima S.A. de C.V.	Ingredients & Flavours	45	
Chile	Kerry Chile Ingredientes, Sabores Y Aromas Limitada	Ingredients & Flavours	46	
Argentina	General Cereals S.A.	Ingredients & Flavours	47	
Puerto Rico	Kerry Flavor Systems Puerto Rico, Inc.	Ingredients & Flavours	48	
Colombia	Kerry Ingredients & Flavours Colombia S.A.S.	Ingredients & Flavours	49	
Thailand	Kerry Ingredients (Thailand) Limited	Ingredients & Flavours	50	
Philippines	Kerry Food Ingredients (Philippines), Inc.	Ingredients & Flavours	51	
	Kerry Food Ingredients (Cebu), Inc.	Ingredients & Flavours	52	
Singapore	Kerry Ingredients (S) Pte Limited	Ingredients & Flavours	53	
Malaysia	Kerry Ingredients (M) Sdn. Bhd.	Ingredients & Flavours	54	
	Esterol Sdn. Bhd.	Ingredients & Flavours	55	
Japan	Kerry Japan Kabushiki Kaisha	Ingredients & Flavours	56	
China	Kerry Food Ingredients (Hangzhou) Company Limited	Ingredients & Flavours	57	
	Kerry Ingredients Trading (Shanghai) Limited	Ingredients & Flavours	58	



## Notes to the Financial Statements

### 36. Principal subsidiaries (continued)

Country	Company Name	Nature of Business	Registered Office
Indonesia	Kerry Ingredients Indonesia Pty Limited	Ingredients & Flavours	59
India	India Kerry Ingredients India Pvt. Limited	Ingredients & Flavours	60
	Kerry India Limited	Ingredients & Flavours	61
Australia	Food Spectrum Group Pty Limited	Ingredients & Flavours	62
	Kerry Ingredients Australia Pty Limited	Ingredients & Flavours	62
New Zealand	Kerry Ingredients (NZ) Limited	Ingredients & Flavours	63

#### Notes

(1) All principal subsidiaries are wholly owned.

(2) Country represents country of incorporation and operation. Ireland refers to the Republic of Ireland.

(3) With the exception of the US, Canadian and Mexican subsidiaries, where the holding is in the form of common stock, all holdings are in the form of ordinary shares.

#### Registered Office

- 1 Prince's Street, Tralee, Co. Kerry, Ireland.
- 2 6 Corcrain Road, Portadown, Craigavon, Co. Armagh, Northern Ireland.
- 3 Milburn Road, Coleraine, Co. Londonderry, BT52 1QZ, Northern Ireland.
- 4 Thorpe Lea Manor, Thorpe Lea Road, Egham, Surrey TW20 8HY, England.
- 5 Eaton Green Road, Luton LU2 9XF, England.
- 6 Equinox South, Great Park Road, Bradley Stoke, Bristol BS32 4QL, England.
- 7 9 Kelvin Avenue, Hillington, Glasgow, G52 4LR, Scotland.
- 8 Springthyme House, Unit 6A, Meadway, Padiham, Lancashire BB12 7NG, England.
- 9 Woestijnstraat 37, 2880 Bornem, Belgium.
- 10 Veluwezoom 62, 1327 AH Almere, The Netherlands.
- 11 Marikova, 36 Brno, Czech Republic.
- 12 Les Monestiers, 84400 Gargas, France.
- 13 Quartier Salignan, 84400 Apt en Provence, France.
- 14 26 Rue Jacques Prevert, 59650 Villeneuve d'Ascq, France.
- 15 Hauptstrasse 22-26, D-63924 Kleinheubach, Germany.
- 16 Neckarstraße 9, 65239 Hochheim/Main, Germany.
- 17 Ul. P Browki 44, 210605 Vitebsk, Republic of Belarus.
- 18 Toftegardsvej 3, DK-5620, Glamsbjerg, Denmark.
- 19 Via Cappitani Di Mozzo 12/16, 24030 Mozzo (BG) - Italy.
- 20 25-558 Kielce, Ul. Zagnanska 97a, Kielce, Poland.
- 21 2045 Torokbalint, FSD Park 2, Hungary.
- 22 16 Avenue Pasteur, L-2310 Luxembourg, Grand-Duchy of Luxembourg.
- 23 Sectorul 3, 42 Dudesti-Pantelimon Road, 033094 Bucharest, Romania.
- 24 Office 901-B, Building 1, 16/2 Tverskaya Street, Moscow, 125009, Russia.
- 25 8 Basovskaya Street, Moscow, 109202, Russia.
- 26 31 Imam Ali Street, Ismailia Square, Heliopolis, Cairo, Egypt.
- 27 268 Fleming Road, Meadowdale, Johannesburg, South Africa 1609.
- 28 Sancova 50, 811 04 Bratislava, Slovakia.
- 29 4 Korolenkivska str., Kiev, Ukraine.
- 30 25392 Commercentre Drive, Lake Forest, California 92630, USA.
- 31 1209 Orange Street, Wilmington, Delaware 19808, USA.
- 32 800 South Gay Street, Suite 2021, Knoxville, Tennessee 37929, USA.
- 33 388 State Street, Suite 20, Salem, Oregon 97301 USA.
- 34 1300 E. Ninth Street, Cleveland, Ohio 44114 USA.

### 36. Principal subsidiaries (continued)

#### *Registered Office (continued)*

- 35 351 W. Camden Street, Baltimore, Maryland 21201 USA.
- 36 208 S. LaSalle Street, Suite 814, Chicago, Illinois 60604 USA.
- 37 3330 Millington Road, Beloit, Wisconsin 53511, USA.
- 38 251 E. Ohio Street, Suite 1100, Indianapolis, IN, 46204, USA.
- 39 Suite 3600, 55 King Street West, Toronto-Dominion Bank Tower, Toronto Dominion Center, Toronto, M5K 1N6, Canada.
- 40 66 Wellington Street, Toronto-Dominion Bank Tower, Toronto, Ontario, M5K 1N6, Canada.
- 41 Carr. Panamericana, Salamanca Km 11.2, 36660 Irapuato, Guanajuato, Mexico.
- 42 Rua Cristiano Alves da Silva, 15 - Parque Jussara - Tres Coracoes - MG - Brazil.
- 43 Av. Djalma Batista, no. 1661, Millenium Shopping Mall, Business Tower, Cidade De Manaus, Estado do Amazonas, Brazil.
- 44 Avenida Joao XXIII, No 1010, Mogi das Cruzes, Sao Paulo, 52.542.446/0001-41, Brazil.
- 45 200 metros al este del Banco Nacional en la Uruca Contiguo a la Bomba Shell, San José, Costa Rica.
- 46 Isidora Goyenechea 2800, Piso 43, Las Condes, Santiago, Chile.
- 47 Av. Libertador 6570, Piso 7, Departamento A, Buenos Aires, Argentina.
- 48 818 W. Seventh Street, Los Angeles, California 90017 USA.
- 49 CR 7 NO. 71 52 TO A P 5, Bogotá - Colombia.
- 50 No 618, Moo 4, Bangpoo Industrial Estate, Praksa Sub District, Muang District, Samutprakarn Province, Thailand.
- 51 GF/SFB#1, Mactan Economic Zone 1, Lapulapu City, Cebu, Philippines.
- 52 P. Suico St., Tabok, Mandaue City, Cebu, Philippines.
- 53 3 Anson Road, #27-01 Springleaf Tower, Singapore 079909, Singapore.
- 54 Suite 1301, 13th Floor, City Plaza, Jalan Tebrau, 80300 Johor Bahru, Johor, Malaysia.
- 55 Lot 41, Lengkok Keluli 1, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor, Malaysia.
- 56 Kamiyacho Sankei Building. 2F, 1-7-2, Azabudai 1-chome, Minato-ku, Tokyo 106-0041, Japan.
- 57 Renhne Industry Zone, Jiulong Village, Hangzhou, China.
- 58 Room 248, Ximmao Building, 2 Tai Zhong Road South, Waigaoqiao Free Trade Zone, Shanghai, China.
- 59 JL Industri Utama Blok SS No. 6, Jababeka II Mekarmukti, Cikarang Utara, Bekasi 17520, Indonesia.
- 60 17th Floor, Nirmal Building, Nariman Point, Mumbai 400 021, India.
- 61 Theing Road, Phillaur, 144410, District Jalandhar, Punjab, India.
- 62 No 8 Holker Street, Newington, NSW 2127, Australia.
- 63 11-13 Bell Avenue, Otahuhu, Auckland, New Zealand.



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