leadership in

taste

Kerry Group Annual Report & Accounts 2011

We are the global leader in creating food and beverage taste solutions.

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Results 2011

Sales revenue up 6.9% to

€5.3 billion

Trading profit up 6.4% to

€501 million

Adjusted* EPS up 11.1% to

213.4 cent

Total dividend per share up 11.8% to

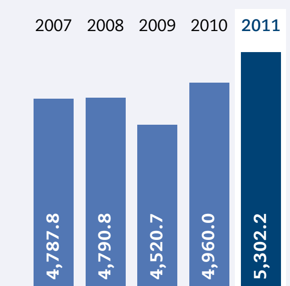
32.2 cent

Free cash flow of

€279 million

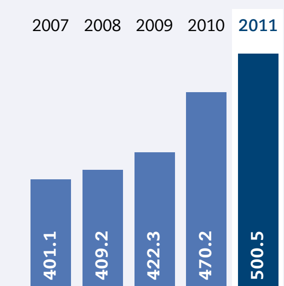
R&D investment of

€167 million



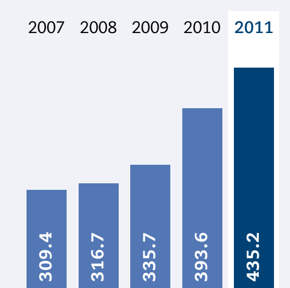
Revenue

(€ Million)



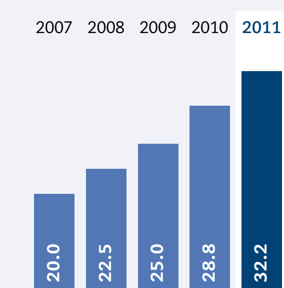
Trading profit

(€ Million)



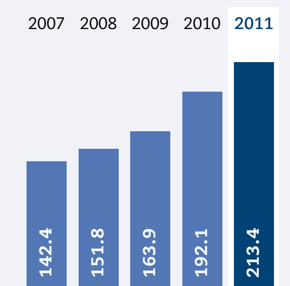
Profit before taxation and non-trading items

(€ Million)



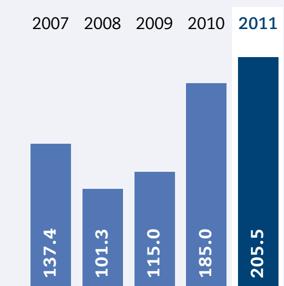
Dividend per share

(cent)



Adjusted* earnings per share(1)

(cent)



Basic earnings per share

(cent)

* Before brand related intangible asset amortisation and non-trading items

Note (1): 2007 to 2010 re-presented to treat computer software amortisation as a cost in calculating adjusted EPS

A taste of 2011

Kerry maintained solid earnings growth with adjusted earnings per share increased by 11.1% to 213.4 cent.

In the Group's 25th operational year since the establishment of Kerry Group plc in 1986, trading profit reached a milestone level of €501m.

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

The Board recommends a final dividend of 22.4 cent per share (an increase of 12% on the 2010 final dividend) payable on 11 May 2012 to shareholders registered on the record date 13 April 2012.

The Group's ingredients & flavours businesses grew steadily in all regions benefiting from Kerry's breadth and depth of technology and 1 Kerry approach to market development providing industry-leading integrated solutions.

While volume growth in Kerry Foods, the Group's consumer foods business, moderated during the year, a satisfactory performance was achieved in particular in the UK. Divisional profitability was maintained through an increased focus on business efficiency programmes.

The Group successfully completed a number of strategic acquisitions during the year at a total cost of €386.4m – broadening Kerry's range of technologies and expanding the Group's footprint into new geographies.

Significant progress was achieved in design and early implementation of 1 Kerry business transformation programmes and the Group's 'Kerryconnect' business enablement project, embedding a culture of continuous improvement throughout the global Kerry organisation.

Chairman's Statement

Denis Buckley
Chairman

I am pleased to report that Kerry Group delivered a strong set of results in 2011 despite challenging conditions in some of our markets and significant input cost inflation. 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. In our 25th operational year since the establishment of Kerry Group plc in 1986, trading profit reached a milestone level of €501m in 2011.

The increasing scale and technological development of our global ingredients & flavours business continues to drive solid growth and enhance our customer alliances. Our consumer foods' business has continued to benefit from the strength of our UK brands supported by strong innovation. In Ireland our foods' business is now well aligned to the needs of today's value conscious consumers.

Results

Group sales revenue increased by 6.9% to €5.3 billion, reflecting like-for-like (LFL) growth of 6.4%. Adjusted profit after tax before brand related intangible asset amortisation increased by 11.2% to €375m. Adjusted earnings per share increased by 11.1% to 213.4 cent (2010: 192.1 cent).

Strategic Development

The Group continues to advance our 1 Kerry business model, leveraging Kerry's capabilities on a global basis to provide industry-leading integrated customer solutions. We have also increased our focus on expanding Kerry's position in fast growing developing markets. Increased investment in product innovation in the Group's consumer foods' businesses in the UK and Ireland is delivering greater product differentiation supporting development of Kerry Foods' brands and growth in selected private label categories.

We successfully completed a number of strategic acquisitions during the year at a total cost of €386.4m. Details of the performance of Group businesses in 2011 are presented in the Chief Executive's Review and in the Business Reviews of the report.

Dividend

The Board recommends a final dividend of 22.4 cent per share (an increase of 12% on the 2010 final dividend) payable on 11 May 2012 to shareholders registered on the record date 13 April 2012. When combined with the interim dividend of 9.8 cent per share this brings the total dividend for the year to 32.2 cent, an increase of 11.8% relative to the previous year.

Board Changes

We 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. He served as a member of the Audit Committee and also chaired the Group's Remuneration and Nomination Committee. We were fortunate to have had the benefit of Kevin's business experience and on behalf of the Directors I would like to offer sincere condolences to the Kelly family.

I would like to thank Michael J. Sullivan who retired from the Board at the Annual General meeting in May 2011 for his personal contribution to the Kerry organisation. Michael brought a wealth of international experience to the Board and on behalf of the company I would like to wish him the very best for the future.

Michael J. Fleming also retired from the Board and I would like to record my appreciation to Michael for his contribution and service to Kerry.

James Kenny joined the Board as a non-executive Director in June 2011. James is Executive Vice President of U.S. based Kenny Construction Inc and President of Kenny Management Services Inc. He served as U.S. Ambassador to Ireland from 2003 until 2006. I would also like to welcome Joan Garahy, Michael Teahan and Philip Toomey who joined the Board as non-executive Directors since year-end. 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 2012 are outlined in the Chief Executive's Review. The Board is confident that the Group is well positioned to achieve its growth objectives and to deliver sustained value for all stakeholders.

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

Denis Buckley, Chairman
20 February 2012

"We're delivering the innovation,
flavour technology, texture and processes required
to provide new, interesting and relevant
taste solutions for our customers."

Stan McCarthy, *Chief Executive*

Chief Executive's Review

Stan McCarthy
Chief Executive

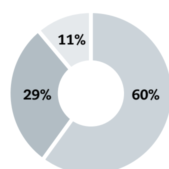
Kerry continued to develop successfully and maintain solid earnings growth in 2011, despite the impact of significant raw material and input cost inflation experienced during the year. The Group performed well in all key developed markets and continued to extend its market positions in developing markets. Good organic growth rates were achieved despite the inflationary environment. Raw material costs increased by over 8% year-on-year, requiring close collaboration with customers to manage cost recovery programmes. The continuing challenging economic landscape across most major economies heightened the requirement for innovation and product differentiation to meet changing consumer requirements.

The Group's ingredients & flavours businesses grew steadily in all regions benefiting from Kerry's breadth and depth of technology and 1 Kerry approach to market development providing industry-leading integrated solutions. While consumer spending remains constrained due to fiscal pressures, demands for all-natural and clean label solutions continue to grow as does the requirement for healthy reformulation, well-being and diet-specific offerings.

Cost recovery in the Group's consumer foods markets in Ireland and the UK proved more challenging due to the prevailing economic situation and level of price promotional activity in both markets. However, while Kerry Foods saw a moderation in volume growth as the year progressed, profitability in the division was maintained due to on-going business efficiency programmes and successful innovation focused on value consumer offerings.

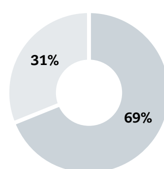
Results

Group sales revenue in 2011 on a reported basis increased by 6.9% to €5.3 billion, reflecting like-for-like (LFL) growth of 6.4% when account is taken of acquisitions and currency translation. Business volumes grew by 3.3% whilst product pricing/mix increased by 3.2%.



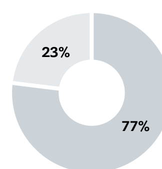
Group Revenue by Destination

EMEA	60%
Americas	29%
Asia Pacific	11%



Revenue

Ingredients & Flavours	69%
Consumer Foods	31%



Trading Profit

Ingredients & Flavours	77%
Consumer Foods	23%

Cost recovery proved successful in ingredients & flavours markets with residual increases in some categories secured for 2012. The lag in cost recovery in the Group's consumer foods' businesses will be overcome through continuing business efficiency projects and pricing actions.

Business intersegment trading has been realigned to reflect changes in management responsibility for some European manufacturing facilities. This does not impact Group revenue, trading profit or trading margin. The 2010 comparatives have been re-presented on a similar basis.

Q4 sales volumes in ingredients & flavours reflect good growth against a strong comparative in 2010. Overall growth in the Group's consumer foods categories was weaker in the fourth quarter but the level of trading over the holiday period was encouraging. Over the full year ingredients & flavours' business volumes increased by 4% and consumer foods achieved 1.1% business volume growth.

Group trading profit reached a milestone level of €501m, an increase of 7.1% LFL. Despite the unprecedented cost inflationary challenges, the Group maintained solid underlying business trading margin momentum. Ingredients & flavours achieved 10 basis points margin improvement to 11.9%. Consumer foods margin was back 30 basis points to 7.8% despite the successful business efficiency measures undertaken during the year. Allowing for unallocated development costs relating to the global IT ('Kerryconnect') project and the arithmetical effect which cost recovery pricing has on the margin calculation, the Group trading profit margin in 2011 was back 10 basis points to 9.4%.

Adjusted profit after tax before brand related intangible asset amortisation increased by 11.2% to €375m (2010: €337m). Adjusted earnings per share increased by 11.1% to 213.4 cent (2010: 192.1 cent).

Investment in research and development increased to €167m (2010: €156m). Capital expenditure amounted to €162m (2010: €139m). The Group achieved a free cash flow of €279m (2010: €305m).

Business Reviews

Ingredients & Flavours

Our 'go-to-market' strategies, capitalising on Kerry's broad global ingredients & flavours development, technology layering opportunities and end-use-market focus continued to deliver stronger customer engagement and innovation in all regions in 2011. Sales revenue increased on a reported basis by 8.5% to €3,706m, reflecting 7.7% LFL growth. Business volumes grew by 4% and pricing/mix increased by 3.8%. Trading profit increased by 9.4% LFL to €439m with the division's trading margin improved by 10 basis points to 11.9%.

All Group technology clusters achieved satisfactory growth in 2011. Revenue grew by 7.9% in Savoury & Dairy systems, 5.4% in Cereal & Sweet systems, 12.6% in Beverage systems, 9.1% in Pharma, Nutritional & Functional ingredients and by 11.2% in Regional Technologies.

Revenue in the Americas region grew by 7.1% LFL to €1,558m. Business volumes increased by 3.3% and pricing/mix increased by 3.8%.

In the EMEA region revenue increased by 6.9% LFL to €1,475m. Business volumes grew by 2.7% and while there was some lag in cost recovery, the increase in input costs was substantially recovered with pricing/mix increased by 4.2%.

In the Asia-Pacific region revenue grew by 12% LFL to €605m. Business volumes increased by 10% despite a series of natural disasters which impacted the region. Pricing/mix increased by 2.8%.

While consumer spending remains constrained due to fiscal pressures, demands for all-natural and clean label solutions continue to grow.

Consumer Foods

Constrained consumer spending in Ireland and the UK has continued to drive value consumption and increased market promotional activity. This has heightened competition across branded and private label offerings and limited cost recovery pricing actions in some categories. While volume growth in Kerry Foods' business moderated during the year, a satisfactory performance was achieved in particular in the UK. Divisional profitability was maintained through an increased focus on business efficiency programmes.

Sales revenue increased to €1,674m reflecting 3.2% LFL growth. Overall business volumes grew by 1.1%, reflecting 2.6% volume growth in the UK and a decline of 2.6% in Ireland. Trading profit showed 1% LFL growth at €130m. Despite gains through business efficiency programmes, difficulties in cost recovery particularly in private label categories meant that the divisional trading margin was 30 basis points lower at 7.8%.

The performance of the Group's ingredients & flavours and consumer foods' businesses is reviewed in detail in the Business Review section of this report.

Finance

Finance costs for the year decreased by €14.5m to €46.0m (2010: €60.5m) as the impact of lower interest rates more than offset the impact of acquisition spend and capital investment. The Group's average interest rate for the year was 4.0%, a decrease of 70 basis points from the prior year (2010: 4.7%).

The tax charge for the year, before non-trading items, was €74.6m (2010: €68.7m) representing an effective tax rate of 17.1% (2010: 17.5%).

In the year under review the Group achieved a free cash flow of €278.8m (2010: €304.8m) having spent €162.2m on non-current assets, €3.8m on working capital, €34m on net pension plan payments, €46.6m on finance costs and €75.9m on tax.

Brian Mehigan
Chief Financial Officer

Gerry Behan
President & CEO
Kerry Ingredients & Flavours

Flor Healy
CEO Kerry Foods

The free cash flow of €278.8m generated during the year was utilised as follows:

- Expenditure on acquisitions net of disposals, including deferred consideration on prior year acquisitions of €359.2m (2010: €157.6m)
- Expenditure on non-trading items of €13.9m (2010: €26.4m)
- Equity dividends paid of €52.4m (2010: €45.7m).

Net debt at the end of the year was €1,287.7m (2010: €1,111.9m). In April 2011 the Group negotiated a 5 year €1bn revolving credit facility with a syndicate of banks which provides a committed line of credit until April 2016 and significantly extends the maturity profile of committed facilities to the Group. Undrawn committed and undrawn standby facilities at the end of the year were €560m (2010: €655m).

Future Prospects

In a challenging business environment, Kerry has continued to perform robustly while investing in our capabilities and positioning for the future. The Group has made significant progress in design and early implementation of 1 Kerry business transformation programmes and the 'Kerryconnect' business enablement project, embedding a culture of continuous improvement throughout the global Kerry organisation. The Group will continue to invest towards achieving business excellence across all its operations and functional areas – leveraging Kerry's global expertise and capabilities, whilst optimising manufacturing, scale and efficiency benefits.

We are well focused on capitalising on the layering opportunities across Kerry's global technology portfolio – delivering industry-leading innovative ingredient & taste solutions and pharma, nutritional and functional ingredients for food, beverage and pharmaceutical markets. Our consumer foods business has strong branded and customer branded positions in the UK and Irish markets, which coupled with Kerry Foods' ongoing business efficiency programmes and product differentiation through innovation, will sustain the profitable growth of the business.

The Group is confident of achieving its strategic growth objectives in 2012 and expects to achieve seven to ten per cent growth in adjusted earnings per share to a range of 228 to 235 cent per share (2011: 213.4 cent).

Stan McCarthy, Chief Executive
20 February 2012

Ingredients & Flavours

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

Kerry's 'go-to-market' strategies, capitalising on its broad global ingredients & flavours development, technology layering opportunities and end-use-market focus continued to deliver stronger customer engagement and innovation in all regions in 2011. Sales revenue increased on a reported basis by 8.5% to €3,706m, reflecting 7.7% LFL growth. Business volumes grew by 4% and pricing/mix increased by 3.8%. Trading profit increased by 9.4% LFL to €439m with the division's trading margin improved by 10 basis points to 11.9%.

Innovation continues to be driven by increasing consumer demand for 'free-from foods', reduced calorie, reduced salt, reduced fat, higher-fibre, natural flavours and ingredients, enhanced nutritional and dietary products, in addition to continuing trends towards more convenient, cost-effective solutions, healthy snacking options and affordable indulgence; favouring development through Kerry's range of ingredients, flavours, texture, nutritional and taste solutions.

In December the Group completed the acquisition of Cargill's global flavours business. The business, acquired for a total consideration of US$230m, serves a global customer base through provision of flavour ingredients and flavour systems for beverage, dairy, sweet and savoury applications. It has long standing relationships with leading global food and beverage manufacturers through its integrated flavour development and application centres in France, the UK, South Africa, India, Malaysia, China, the USA, Puerto-Rico, Mexico and Brazil – supported by a network of sales representative offices in 12 other countries.

All Group technology clusters achieved satisfactory growth in 2011. Revenue grew by 7.9% in Savoury & Dairy systems, 5.4% in Cereal & Sweet systems, 12.6% in Beverage systems, 9.1% in Pharma, Nutritional & Functional ingredients and by 11.2% in Regional Technologies.

Revenue	
2011	€3,706m
Like-for-like (LFL) Growth	7.7%

Trading Profit	
2011	€439m
Like-for-like (LFL) Growth	9.4%

Trading Margin	
2011	11.9%
Like-for-like (LFL) Growth	+10bps

The success of Kerry's 'go-to-market' strategies and customer-centric business model continues to achieve excellent business development momentum, forging ever stronger customer alliances with food and beverage manufacturers and foodservice providers.

Americas Region

Revenue in the Americas region grew by 7.1% LFL to €1,558m. Business volumes increased by 3.3% and pricing/mix increased by 3.8%.

Savoury, Dairy & Culinary systems & flavours performed well throughout the region. Good growth was achieved in the yoghurt market through innovative lines in multiple product formats including ice cream applications and smoothie kits. Progress accelerated through formed sauces, dairy systems and dairy flavours in the prepared meals and side dishes categories. Savoury snacks provided good growth opportunities through regional snack manufacturer accounts and all-natural snack product suppliers incorporating Kerry's clean label flavouring systems. Coatings systems recorded solid growth in the meat sector and successful integration of new flavours into meat systems produced excellent results in the poultry sector. Foodservice applications grew year-on-year, as growth in particular through quick-serve-restaurants rebounded to pre-recession levels. In Latin American markets the meat, dairy and snack sectors saw double digit growth in 2011 providing good opportunity for Kerry's integrated systems & flavours.

Cereal & Sweet systems & flavours' performance improved as the year progressed, assisted by Kerry's integrated solutions approach. The ice cream and frozen desserts sector provided solid Kerry innovation opportunities for bite-size snackable offerings and frozen novelty lines. Demand for improved health and clean label offerings in the bakery sector led to good growth in Kerry's complete technology offering including flavours, shelf-life extenders, bio-ingredients and functional ingredients. Demand for particulates also grew through in-store bakery and foodservice channels. Snacking trends and seasonal product introductions also provided good growth opportunities in the confectionery category. Kerry's sweet systems & flavours achieved continued strong growth in Latin American markets benefiting from the expansion of sweet inclusions process capabilities in Mexico and Brazil. Despite sectoral challenges in the RTE cereal market Kerry continued to record good progress through key accounts and the successful introduction of infant cereal lines. The bar segment also provided new development opportunities for Kerry's integrated solutions. Market development in Latin America was advanced mid-year through the acquisition of General Cereals S.A. in Argentina.

SAVORY & DAIRY

Appetisers

Meal accompaniments and appetisers are a key component in consumer meal solutions. Kerry Ingredients & Flavours provides a broad range of specialised appetiser concepts and applications to customers.

Soups Sauces & Dressings

Our technology expertise provides customers with a comprehensive line of customised soup, sauce and dressing applications.

Savoury Snacks

Kerry Ingredients & Flavours has industry-leading expertise in supplying customers with customised savoury snack solutions in line with changing consumer tastes and dietary health requirements.

Beverage systems & flavours saw strong growth in the nutritional, sport drinks, weight management and clinical nutrition sectors, and in tea and coffee applications. This provided good growth for Kerry beverage flavours and fmt™ flavour technology. Syrup lines saw renewed growth through speciality coffee and foodservice outlets. In the branded segment Da Vinci Gourmet 'Origins' line was successfully introduced and a novel non-fat yoghurt smoothie was launched under the Jet brand. The acquisitions of Agilex Flavors and Caffe D'Amore completed in late 2010 significantly assisted performance in North America. Kerry's beverage systems also achieved strong growth in Latin American markets in 2011 in particular in the nutritional beverages and soft drinks categories in Mexico, Argentina and Brazil.

The Group's **pharma ingredients** business achieved excellent growth in 2011 and significantly extended its global market positioning. Continued investment in its manufacturing capabilities, applications facilities and technical services in the USA, Brazil and India delivered strong growth for Kerry's excipient systems and tabletting technologies. The Group also significantly expanded its cell culture media supplements product portfolio through agreement on an exclusive global sales, marketing and development alliance. Media supplements, hydrolysed proteins and yeast extracts achieved solid growth in developing markets including China, India and Brazil. Production of pharmaceutical grade emulsifiers was successfully commissioned at the Group's facility in Kuala Lumpur and the completion of the acquisition of Cargill's flavours business also strengthened Kerry's position in provision of pharmaceutical approved flavours. In September, Mumbai based Lactose India was acquired broadening Kerry's positioning in excipients' markets. A new tablet coating facility and application centre was also established in India. Since year-end a US$10m programme commenced to establish a new Cell Science facility at the Kerry Center in Beloit (WI) to expand the Group's media enhancement capabilities for cell culture, vaccine development, microbial fermentation and diagnostics.

EMEA Region

Revenue in the EMEA region increased by 6.9% LFL to €1,475m. Business volumes grew by 2.7% and while there was some lag in cost recovery, the increase in input costs was substantially recovered with pricing/mix increased by 4.2%.

Meats

We utilise our considerable experience in meat flavourings, coatings and functional savoury systems to provide customers with innovative product solutions, specifically customised for the meat processing industry.

Prepared Meals & Side Dishes

Consumers are constantly seeking quality, varied and convenient meal solutions. Kerry offers its customers innovative solutions and development expertise across a wide range of prepared meal applications and side dish concepts.

Dairy

Our positioning as a leading-edge developer of dairy ingredients places us in an unrivalled position to provide customers with a comprehensive range of dairy application solutions.

Savoury & Dairy systems & flavours performed above industry average but performance varied across end-use-markets and regional markets due to the impact of cost recovery initiatives. Meat coating systems performed well through added value poultry applications for retail and quick-serve-restaurant markets. The momentum towards clean label solutions led to increased uptake of Kerry's SFT™ all-natural shelf-life extension technology in the meat processing industry. Savoury flavours, cheese systems and snack seasonings achieved good growth in the snack sector. Prior to year-end the Group also acquired Durban, South Africa based FlavourCraft – a leading developer and provider of savoury flavours and seasonings for soup, sauce, prepared meal, snack and meat applications serving EMEA markets in particular developing markets in Africa. Dairy systems & flavours, proteins and enzyme technologies experienced good growth throughout European markets in 2011. Proteins achieved solid growth in the nutrition and confectionery sectors, in particular through hypo-allergenic hydrolysed proteins for infant nutritional products and through functional proteins for confectionery applications in developing markets. Cheese systems continued to record strong growth in the foodservice sector throughout all EMEA markets. A major investment programme was completed at the Listowel plant in Ireland to expand dairy flavour production capabilities and capacity.

Cereal & Sweet technologies saw good growth in the dairy & cereal bar markets and also through foodservice applications. Sweet systems recorded strong development in the ice cream market through successful innovation in the premium segment incorporating Kerry's cluster technologies and coating capability. The acquisition of SuCrest in October significantly expanded the Group's sweet ingredients & flavours business in the EMEA region. With production and product development facilities located in Hochheim, Germany and Vitebsk, Belarus and a sales representative office in Moscow, SuCrest is a leading provider of sweet ingredients to the bakery, ice cream, confectionery, cereal and snack sectors in European markets.

Kerry's integrated technology approach incorporating sweet systems, dairy systems, fermented ingredients and emulsifiers continued to provide good opportunity for growth in the bakery sector. Demand for indulgence applications in the fine bakery category was adversely impacted by restrained consumer spending. Market development in the RTE cereals sector was also weaker as manufacturers reconfigured brand portfolios in response to the high level of promotional activity and changing consumption patterns.

CEREAL & SWEET

Bakery

Our combination of cereal and sweet technologies, coupled with our expertise in functional ingredients, provides a full range of products to service customer needs in the bakery industry.

Cereals & Bars

Kerry Ingredients & Flavours cereal products technologies support our customers in providing a wide range of offerings to meet consumer needs from ready-to-eat breakfast cereals to convenience cereal bars.

Confectionery

International confectionery markets continue to grow as suppliers expand their geographical reach, whilst demand for low-fat, low-sugar or organic alternatives continues to increase in developed markets.

Ice Cream & Desserts

Kerry's cereal & sweet systems and flavours are utilised in a host of applications including: ice cream, frozen yoghurts, sherbets, impulse novelties, popsicles and shakes.

Provenance of raw materials and authenticity of recipe assumed more importance – as did demand for health/wellness benefits in food and beverage offerings.

Beverage systems & flavours benefited from increased demand for more cost-effective solutions as beverage producers sought to mitigate raw material inflationary trends. Demand for lower calorie/reduced sugar provided solid growth through Kerry's fmt™ flavour technology. As consumers increasingly choose personalised beverage offerings, Da Vinci flavoured syrups recorded good growth in the European coffee chain market.

Primary Dairy markets benefited from strong demand from key importing countries in 2011. Despite higher output in major production zones pricing remained firm for most of the year buoyed by the level of international demand. Pricing weakened slightly in Q4 in line with the expansion in global supplies. The Newmarket cheese facility acquired in late 2010 was integrated into Kerry's dairy portfolio.

Asia-Pacific Region

Revenue in the Asia-Pacific region grew by 12% LFL to €605m. Business volumes increased by 10% despite a series of natural disasters which impacted the region. Pricing/mix increased by 2.8%.

Savoury & Dairy technologies recorded strong organic growth throughout Asia-Pacific markets. Dairy systems performed well in the snack and bakery markets in Malaysia and the Philippines. Cheese systems continued to grow in Japan and China, in particular for snack and biscuit applications. Lipid systems grew satisfactorily in the infant nutrition sector but the significant sectoral input cost increases adversely impacted performance in the tea & coffee end-use-market. China continued to provide a strong platform for growth in the infant nutritional sector. Culinary systems performed well throughout Asia, with good progress in the growing snack markets in Indonesia, the Philippines and Vietnam, and excellent growth through sauce applications in China.

Meat technologies grew strongly in Australia and New Zealand with good growth in the QSR sector and through added value poultry applications. The acquisition of EBI Cremica during the year has provided a platform for growth through coating systems in the food processing and foodservice sectors in India. A new applications centre was opened in Delhi to support savoury, culinary and beverage development. An infant nutrition spray drying facility was also commissioned at the Penang plant in Malaysia.

BEVERAGE

Soft Drinks

Our beverage systems and flavours portfolio includes carbonated beverages, energy/sport beverages, water & flavoured water, juices, fruit drinks, smoothies, dilutables, concentrates and cordiales.

Alcoholic Beverages

Kerry Ingredients & Flavours' team of brewing & distilling specialists support a comprehensive ingredients range for all of the world's major brewing and distilling markets.

Nutritional Beverages

Kerry has developed specialised ingredients and systems to enhance the nutritional value of beverage products including: infant nutritional, weight control beverages and clinical nutritional products.

Tea & Coffee

Kerry supports customer applications in the tea and coffee sector including: cold/iced tea, cold coffee drinks, hot coffee & tea, tea & coffee mixes, chocolate, cocoa & malt beverages, coffee syrups and creamers.

The Group's pharma ingredients business, which develops excipient and cell nutrition products for pharmaceutical, nutritional and bio-technology applications, made considerable progress in 2011, expanding its global market positioning.

Beverage applications performed solidly with double digit growth in all end-use-markets supported by increased layering of the Group's beverage technologies. Successful innovation and extension of speciality beverage offerings continues to drive growth through specialist chain accounts and QSR's. Growth of the nutritional beverage market in China has continued to provide excellent opportunities for Kerry technologies including proteins, flavours and lipids. Da Vinci branded syrups and sauces again achieved solid double digit growth in the region. Brewing ingredients also recorded good progress in Australia and South East Asia. A dedicated Kerry Beverage applications centre was established in Kuala Lumpur, Malaysia to support regional market development.

Sweet technologies performed satisfactorily in the bakery sector. Good volume growth was achieved through Kerry's technologies in the bread sector in Thailand, China and the Philippines. Japan and Korea also provided increased opportunities for sweet systems, functional ingredients and bakery premix technologies. Kerry Pinnacle benefited from the Van den Bergh's and Croissant King branded bakery business acquired in late 2010 – forging closer relationships with key bakery customers in the franchise sector and bringing new frozen dough and pastry technology to the foodservice sector. The acquisition of the IJC Fillings business in Australia from the Windsor Farm Foods Group prior to year-end also significantly expands Kerry's sweet technology capabilities for the ice cream and bakery end-use-markets.

Functional ingredients performed well across the region. Emulsifiers & texturants recorded double digit growth with a strong performance through bakery, confectionery and tea & coffee applications.

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.

Revenue

2011	€1,674m
Like-for-like (LFL) Growth	3.2%

Trading Profit

2011	€130m
Like-for-like (LFL) Growth	1.0%

Trading Margin

2011	7.8%
Like-for-like (LFL) Growth	-30bps

Further tightening of household budgets in Ireland and the UK has continued to drive value consumption and increased market promotional activity. This has heightened competition across branded and private label offerings and limited cost recovery pricing actions in some categories. While volume growth in Kerry Foods' business moderated during the year, a satisfactory performance was achieved in particular in the UK. Divisional profitability was maintained through an increased focus on business efficiency programmes.

Sales revenue increased to €1,674m reflecting 3.2% LFL growth. Overall business volumes grew by 1.1%, reflecting 2.6% volume growth in the UK and a decline of 2.6% in Ireland. Trading profit showed 1% LFL growth at €130m. Despite gains through business efficiency programmes, difficulties in cost recovery particularly in private label categories meant that the divisional trading margin was 30 basis points lower at 7.8%.

In the UK market Kerry Foods' **UK Brands** again achieved a strong performance. Richmond maintained good brand share growth in the sausage sector. While Wall's continues to establish brand leadership in sausage rolls it lost brand share in the fresh sausage market.

Mattessons continued to grow the meat snacking sector but 'Fridge Raiders' margins were adversely impacted by increased raw material costs.

Cheestrings maintained leadership in the children's cheese snack sector despite heavy promotional activity in the category. The 'Cheestrings Spaghetti' variant launched in H2 2010 consolidated its market positioning.

Low Low has repositioned its market focus to the cheese spreads and slices segments targeted towards taste and health offerings.

UK Customer Brands food categories remained highly competitive. Cost recovery proved challenging in some of Kerry's selected categories resulting in some loss of business in cooked meats and frozen meals. However Kerry Foods continued to record good growth in chilled ready meals and dairy spreads. In the chilled ready meals sector successful innovation contributed to further growth in Kerry Foods' major retailer accounts. In the frozen meals category, Headland Foods was acquired to consolidate Kerry's market positioning and assist in restoring stability to the frozen meals category. Due to the level of input cost increases impacting the category in 2011, the integrated Kerry Foods frozen meals business has had to forego loss making sales so as to maintain profitability in the category.

Kerry's **Brands Ireland** business has been realigned to reflect the current market environment as consumers remain challenged by the recessionary economic situation. The division's brands are now focussed on innovation to meet the needs of value conscious consumers without compromising on quality. Kerry Foods added value meat brands lost some market share in 2011 due to the level of promotional activity in the marketplace and low pricing from private label and discounter offerings. Since year-end Denny has brought significant product innovation to the sliced meats market with the launch of Ireland's first 100% Natural Ingredients Denny Deli Style ham. Dairygold maintained its number one brand position in the Irish spreads market. In the cheese sector brand leader Charleville grew market share in the first half of 2011 but lost share to heavily discounted offers in the second half of the year. Cheestrings continues to achieve good progress in Belgium and Holland and was successfully introduced to the German market in 2011. The Ficello brand maintained good growth in France.

Financial Review

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2011 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:

- Adjusted* earnings per share (EPS) growth
- Volume growth
- Trading profit margin
- Return on average equity (ROAE)
- Cash flow return on investment (CFROI)

Reconciliation of adjusted* earnings to profit after taxation	% change	2011 €'m	2010** €'m
Revenue	6.4% (LFL)	**5,302.2**	4,960.0
Trading profit	7.1% (LFL)	**500.5**	470.2
Trading margin		*9.4%*	*9.5%*
Computer software amortisation		(5.4)	(4.3)
Finance costs (net)		(46.0)	(60.5)
Adjusted* earnings before taxation	10.8%	**449.1**	405.4
Income taxes (excluding non-trading items)		(74.6)	(68.7)
Adjusted* earnings after taxation	11.2%	**374.5**	336.7
Brand related intangible asset amortisation		(13.9)	(11.8)
Non-trading items (net of related tax)		0.1	(0.7)
Profit after taxation	11.3%	**360.7**	324.2
		EPS cent	EPS cent
Adjusted* EPS	11.1%	**213.4**	192.1
Brand related intangible asset amortisation		(7.9)	(6.7)
Non-trading items (net of related tax)		–	(0.4)
Basic EPS	11.1%	**205.5**	185.0

(LFL) like-for-like basis excluding the impact of acquisitions, disposals and foreign exchange translation
* Before brand related intangible asset amortisation and non-trading items (net of tax)
** 2010 re-presented to treat computer software amortisation as a cost in calculating adjusted earnings and adjusted EPS

Analysis of results

Business segment analysis

Business intersegment trading has been realigned to reflect changes in management responsibility for some European manufacturing facilities. This has been reflected in the business segment analysis from 1 January 2011 and comparatives for Ingredients & Flavours and Consumer Foods divisions have been re-presented accordingly. This does not impact Group revenue, trading profit or trading margin.

Revenue

Group revenue growth was **6.4%** (LFL) attributable to volume growth of **3.3%**, net price increases of **3.2%** and trading currency impact of **(0.1%)**. Like-for-like growth in Ingredients & Flavours was **7.7%** (2010: 6.4%) and in Consumer Foods was **3.2%** (2010: 0.8%). On a reported basis Group revenue increased by **6.9%** to **€5.3 billion** (2010: €5.0 billion) allowing for the adverse impact of reporting currency **(-1.8%)** and the positive impact of business acquisitions net of disposals **(+2.3%)**.

Geographically revenue growth by destination (LFL) was **7.1%** in the Americas (2010: 6.9%), **5.1%** in EMEA (2010: 2.5%) and **12.0%** in Asia Pacific (2010: 12.2%). Sales to emerging markets represent **21%** (2010: 21%) of Ingredients & Flavours revenue.

Trading profit

Group trading profit growth was **9.8%** (LFL) before Kerryconnect costs. This growth reduces to **7.1%** (LFL) when the incremental year on year expenditure on the Kerryconnect programme of **€15m** is taken into account. Total project costs recorded in the Income Statement in the year were **€35m** (2010: €20m) with **€26m** recorded centrally (2010: €20m) and **€9m** recorded at divisional level (2010: €nil).

On a reported basis trading profit increased by **6.4%** to **€500.5m** (2010: €470.2m) allowing for the negative impact of reporting currency **(-1.6%)** and the positive contribution from business acquisitions net of disposals **(+0.9%)**.

On a divisional basis LFL trading profit growth was **9.4%** (2010: 12.8%) in Ingredients & Flavours and **1.0%** (2010: 5.2%) in Consumer Foods.

Trading profit margin

Underlying trading margin for the Group increased 140 basis points driven by operational leverage and business efficiency programmes, however this was offset by the impact of cost recovery pricing (-100bps), the incremental expenditure on Kerryconnect (-30bps), acquisitions/disposals (-10bps) and currency movements (-10bps). As a result reported Group trading margin decreased by 10 basis points to **9.4%** (2010: 9.5%).

The negative impact of cost recovery pricing (-100bps) consists of -70bps due to a time lag in recovery and -30bps due to the arithmetical effect which cost recovery pricing has on the trading margin calculation (the 'denominator effect').

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 15 to 26.

Exchange rates

Group results are impacted by fluctuations in exchange rates versus the Euro, in particular movements in US dollar and sterling exchange rates. In 2011 movements in exchange rates negatively impacted revenue by **(1.8%)** (2010: 4.5% positive impact) and trading profit by **(1.6%)** (2010: 3.0% positive impact). The average and closing rates for US dollar and sterling used to translate reported results are detailed below:

	Average Rates		Closing Rates	
	2011	2010	**2011**	2010
USD	**1.40**	1.33	**1.29**	1.34
STG	**0.87**	0.86	**0.84**	0.86

Finance costs

Finance costs for the year decreased by €14.5m to **€46.0m** (2010: €60.5m) as cash flows and lower interest rates more than offset the impact of acquisition spend (biased to quarter four) and capital investment. The Group's average interest rate for the year was **4.0%**, a decrease of 70 basis points from the prior year (2010: 4.7%).

Taxation

The tax charge for the year, before non-trading items, was **€74.6m** (2010: €68.7m) representing an effective tax rate of **17.1%** (2010: 17.5%).

Adjusted EPS

Adjusted EPS increased by 11.1% to **213.4 cent** (2010: 192.1 cent). Basic EPS also increased by 11.1% from 185.0 to **205.5 cent**.

From 2011 computer software amortisation is being treated as a cost in calculating adjusted EPS. This represents a change in the calculation basis for adjusted EPS and is due to the increase in computer software amortisation attributable to the Kerryconnect project that the Group is currently undertaking. Adjusted EPS for prior periods has been re-presented on this new basis.

Dividends

The Board has proposed a final dividend of 22.4 cent per A ordinary share payable on 11 May 2012 to shareholders registered on the record date 13 April 2012. When combined with the interim dividend of 9.8 cent per share, the total dividend for the year increased to 32.2 cent (2010: 28.8 cent) an increase of 11.8%.

Retirement benefits

At the balance sheet date, the net deficit for all defined benefit schemes (after deferred tax) was **€212.5m** (2010: €144.6m). The increase year-on-year primarily reflects higher estimated liabilities as a result of lower discount rates 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 **4.3%** (2010: 3.3%). The charge to the income statement during the year, for both defined benefit and defined contribution schemes was **€34.8m** (2010: €32.8m).

Acquisitions

The Group completed a number of acquisitions during the year at a total cost of **€386.4m**. The majority of acquisitions were completed by the Ingredients & Flavours division strengthening the Group's capabilities across a range of technologies and expanding

Kerry's footprint into new geographies. The most significant acquisitions in the year were Cargill Flavour Systems which closed in December and SuCrest GmbH acquired in October. The acquisition of Headland Foods in January by the Consumer Foods division was cleared by the Competition Authority prior to year end. A number of bolt on acquisitions in Ingredients & Flavours were also completed during the year. Further details are available in note 30 and in the Business Review.

Key performance indicators

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

KPI's for the current 5 year cycle (2008 to 2012) including the Group's performance in 2011 and the performance for the 4 years to date are discussed below:

Key performance indicators	Target	4 Yr Average (2008 – 2011)	2011	2010
Adjusted* EPS growth	**10%+**	10.6%	**11.1%**	17.2%
Volume growth	**2% to 4%**	3.6%	**3.3%**	5.5%
Trading profit margin	**10%**	9.4%	**9.4%**	9.5%
(bps p.a.)	***+30bps p.a.***	*+25bps p.a.***	***-10bps***	*+20bps*
Return on average equity (ROAE*)	**15%+**	16.4%	**16.5%**	17.0%
Cash flow return on investment (CFROI)	**12%+**	11.6%**	**9.4%**	11.6%

* Before brand related intangible asset amortisation and non-trading items (net of related tax)
** Performance for these KPI's is on track excluding the investment in Kerryconnect

Adjusted EPS growth, which is considered by management to be more reflective of the underlying performance of the Group than basic earnings per share, is the year-on-year improvement in EPS before brand related intangible asset amortisation and non-trading items (net of tax). In 2011 adjusted EPS increased by **11.1%** to **213.4 cent** (2010: 192.1 cent) driven by higher trading profits and lower finance costs.

Volume growth in 2011 was **3.3%** (2010: 5.5%) analysed as **4.0%** (2010: 6.7%) in Ingredients & Flavours and **1.1%** (2010: 2.6%) in Consumer Foods. In the context of challenging market conditions and selling price increases of **3.2%**, which were passed onto customers to help offset the impact of rising commodity costs, management consider this a strong performance.

Trading profit margin in Ingredients & Flavours increased by 10 basis points to **11.9%** (2010: 11.8%) while Consumer Foods trading margin decreased by 30 basis points to **7.8%** (2010: 8.1%). At Group level this equates to a decrease of 10 basis points to **9.4%** (2010: 9.5%) as the additional costs relating to the Group's global IT project (Kerryconnect) and the lag in passing on commodity cost inflation (particularly in Consumer Foods) offset the benefit of higher volumes and efficiency savings.

Return on investment is measured by the Group on both a profit basis using ROAE and ROACE and on a cash basis using CFROI. For 2011 the Group achieved ROAE of **16.5%** (2010: 17.0%) and ROACE of **12.1%** (2010: 12.7%) while CFROI was **9.4%** (2010: 11.6%). The reduction in CFROI reflects an increased level of capital expenditure driven in part by investment in the Kerryconnect project.

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 the year under review, the Group achieved a free cash flow of **€278.8m** (2010: €304.8m) having spent €162.2m on non-current assets, €3.8m on working capital, €34.0m on net pension plan payments, €46.6m on finance costs and €75.9m on tax.

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.

Credit facilities

In April 2011 the Group negotiated a five year €1bn revolving credit facility with a syndicate of banks which provides a committed line of credit until April 2016 and significantly extends the maturity profile of committed facilities to the Group. Undrawn committed and undrawn standby facilities at the end of the year were €560.0m (2010: €655.0m). Further information on the credit facilities available to the Group are detailed in note 23 to the financial statements.

Net Debt

Net debt at the end of the year was **€1,287.7m** (2010: €1,111.9m). The increase during the year is analysed in the table below:

Movement in net debt	**2011 €'m**	2010 €'m
Free cash flow	**278.8**	304.8
Acquisitions (net of disposals) including deferred consideration	**(359.2)**	(157.6)
Expenditure on non-trading items	**(13.9)**	(26.4)
Equity dividends paid	**(52.4)**	(45.7)
Issue of share capital	**–**	3.6
Exchange translation adjustment on profits	**(2.8)**	(1.5)
(Increase)/decrease in net debt resulting from cash flows	**(149.5)**	77.2
Fair value movement on interest rate swaps	**(4.6)**	19.4
Exchange translation adjustment on net debt	**(21.7)**	(49.1)
(Increase)/decrease in net debt in the year	**(175.8)**	47.5
Net debt at beginning of year	(1,111.9)	(1,159.4)
Net debt at end of year	**(1,287.7)**	(1,111.9)

Exchange impact on net debt

The exchange translation adjustment of **(€21.7m)** results primarily from borrowings denominated in US dollar translated at a year end rate of **$1.29** (2010: $1.34) and borrowings denominated in sterling translated at a year end rate of **84p** (2010: 86p).

Maturity profile of net debt

	2011 €'m	2010 €'m
Within 1 year	**198.9**	(31.4)
Between 1 and 2 years	**(179.0)**	(261.2)
Between 2 and 5 years	**(893.5)**	(407.6)
Over 5 years	**(414.1)**	(411.7)
Net debt at end of year	**(1,287.7)**	(1,111.9)
Weighted average maturity (years)	**4.9**	4.8

Key financial covenants

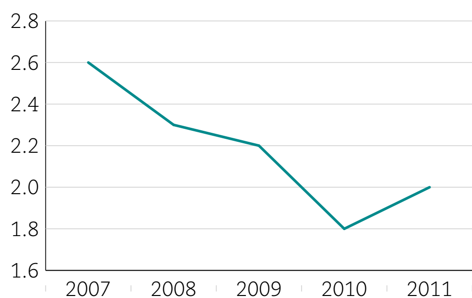
The majority of Group borrowings are subject to financial covenants calculated in accordance with lenders' facility agreements. Principal among these are:

- The ratio of net debt to EBITDA of a maximum 3.5 times; and
- EBITDA to net interest charge of a minimum 4.75 times.

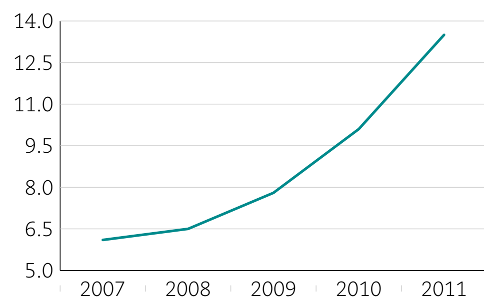
Group Treasury monitors compliance with all financial covenants and at 31 December these ratios were as follows:

	Covenant	**2011 Times**	2010 Times
Net debt: EBITDA*	Maximum 3.5	**2.0**	1.8
EBITDA: Net interest*	Minimum 4.75	**13.5**	10.1

*Net Debt: EBITDA**



*EBITDA: Net Interest**



*Calculated in accordance with lenders' facility agreements

Shareholders' equity

Shareholders' equity increased by €218.3m to **€1,845.3m** (2010: €1,627.0m) as profits generated during the year, together with the positive impact of retranslating the Group's net investment in its foreign currency subsidiaries, more than offset the negative impact of actuarial losses on defined benefit schemes.

Full details of the Group's financial liabilities and cash and cash equivalents are disclosed in notes 22 and 23 to the financial statements and a full reconciliation of shareholders' equity is disclosed in the Consolidated Statement of Changes in Equity on page 74.

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 the executive management team hosted a Capital Markets Day in London, presented at 20 capital market conferences and met over 300 institutional investors at one-on-one and group meetings.

Share price and market capitalisation

The Company's shares traded in the range €23.67 to €30.10 during the year. The share price at 31 December was **€28.28** (2010: €24.97) giving a market capitalisation of **€5.0 billion** (2010: €4.4 billion). Total Shareholder Return for 2011 was 14.4% and for the last 5 years was 58%.

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 financial statements.

Summary and financial outlook

Despite challenging consumer, trading and financial conditions the Group delivered another strong performance in 2011 generating revenue of **€5.3 billion**, trading profit of **€500.5m** and free cash flow of **€278.8m**. At year end the balance sheet is also in a healthy position and with a net debt: EBITDA ratio of **2.0 times**, the Group has sufficient headroom to support the future growth plans of the organisation.

Despite challenging market conditions continuing to prevail going into 2012, the Group looks forward to further financial growth and development in the year ahead.

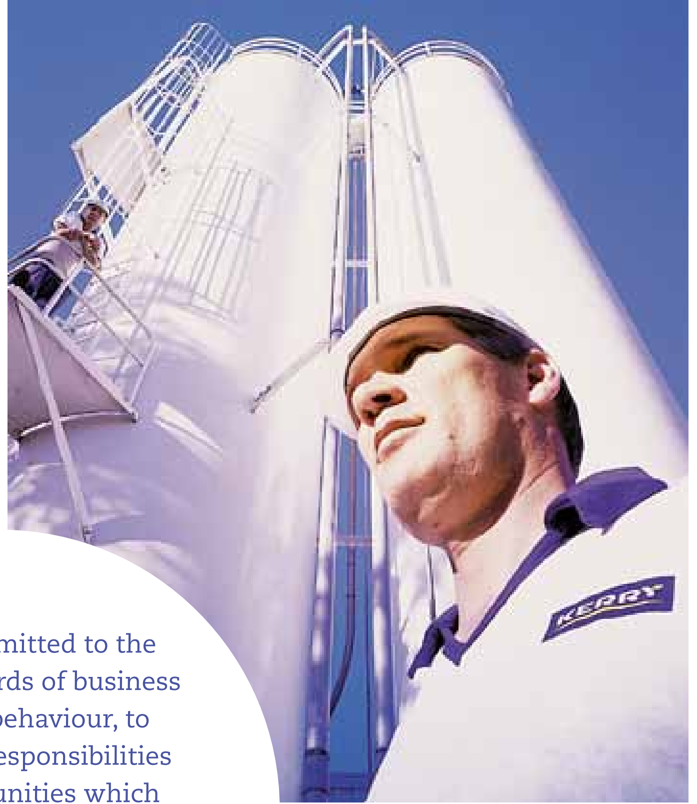
Kerry Group

10 Year Earnings History

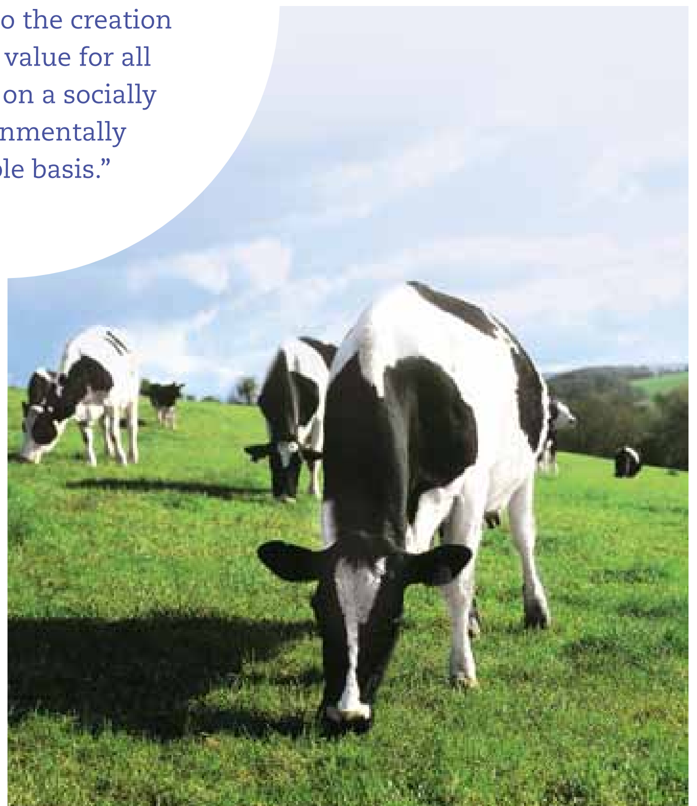
	2002 €'m	2003 €'m	2004 €'m	2005 €'m	2006 €'m	2007 €'m	2008 €'m	2009 €'m	2010 €'m	**2011 €'m**
Revenue	3,754.8	3,693.4	4,128.7	4,429.8	4,645.9	4,787.8	4,790.8	4,520.7	4,960.0	**5,302.2**
Trading profit	305.4	308.5	355.8	380.2	383.7	401.1	409.2	422.3	470.2	**500.5**
Computer software amortisation	-	-	(1.1)	(1.5)	(2.0)	(2.6)	(3.6)	(4.5)	(4.3)	**(5.4)**
Finance costs (net)	(50.2)	(37.3)	(51.8)	(68.4)	(76.9)	(79.1)	(77.6)	(69.8)	(60.5)	**(46.0)**
Adjusted* earnings before taxation	255.2	271.2	302.9	310.3	304.8	319.4	328.0	348.0	405.4	**449.1**
Income taxes (excluding non-trading items)	(66.5)	(63.0)	(74.9)	(65.7)	(57.8)	(64.5)	(62.7)	(61.2)	(68.7)	**(74.6)**
Adjusted* earnings after taxation	188.7	208.2	228.0	244.6	247.0	254.9	265.3	286.8	336.7	**374.5**
Brand related intangible asset amortisation	(41.4)	(48.1)	(8.7)	(8.8)	(10.1)	(10.0)	(11.3)	(12.3)	(11.8)	**(13.9)**
Non-trading items (net of tax)	(43.4)	0.9	(15.2)	0.1	(59.2)	1.2	(77.0)	(73.3)	(0.7)	**0.1**
Profit after taxation	103.9	161.0	204.1	235.9	177.7	246.1	177.0	201.2	324.2	**360.7**
Adjusted* EPS (cent)	101.8	112.1	122.3	130.8	132.8	142.4	151.8	163.9	192.1	**213.4**

* Adjusted EPS is calculated before brand related intangible asset amortisation and non-trading items and is considered more reflective of the Group's underlying trading performance than basic earnings per share. From 2011, with 2004 to 2010 re-presented, computer software amortisation is being treated as a cost in arriving at adjusted EPS.

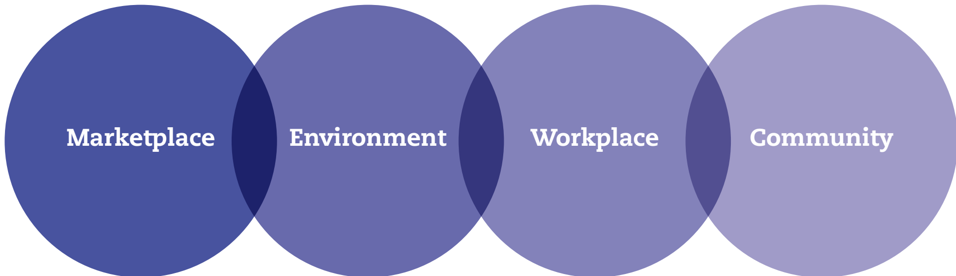
Note: 2002 and 2003 are presented under Irish/UK GAAP and have not been restated to IFRS.



"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 Group is committed to growing its business on a sustainable basis. 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.

Doing business the Kerry way

Kerry employees share values including innovation, creativity, integrity and excellence in meeting the needs of our customers and all our stakeholders. Our Code of Conduct and high ethical standards are based on shared values, reflected in our everyday actions and are documented in our Group Policies.

Central to Kerry's mission and values is to be a responsible leader in the international food industry. The Group has worked systematically since its establishment to recognise its corporate social responsibilities. Our Corporate Mission statement provides a guiding framework for management and all employees in delivering Group policy across all operations and worldwide activities and we are increasingly embedding sustainability thinking and positive action into the activities of all our businesses.

"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."

This Sustainability review outlines Group policies and programme objectives in connection with the four main pillars of Kerry's approach to sustainable development – the marketplace, workplace, environment and the community. Our approach represents a journey of continuous improvement. We have significantly broadened our sustainability programmes in recent years and will progressively establish goals and Group-wide targets to measure our progress.

Kerry Group has established a Global Sustainability Council, led by a Senior Executive, reporting to the Group CEO – who reports to the Kerry Group Board of Directors on Sustainability issues.

The 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 Programmes.

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.

Innovation and product development to enhance the nutritional quality of our ingredients and our customers' products is a core value of the Group, building on the Group's industry-leading ingredients & flavours technology platforms and food & beverage applications expertise.

MARKETPLACE

Everyday millions of people throughout the world consume food or beverage products produced by Kerry or by our customers using our ingredients and flavours. Innovation and product development to enhance the nutritional quality of our ingredients and our customers' products is a core value of the Group, building on the Group's industry-leading ingredients & flavours technology platforms and food & beverage applications expertise. 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. Kerry Foods, the Group's Consumer Foods division, has established clear nutritional policies for all Kerry brands and is continuing to roll out front of pack 'Guideline Daily Amounts' (GDA) nutrition labelling across Kerry Foods' brands.

Food safety

Kerry aims to be the leader in our selected markets, excelling in product quality, product safety, technical and marketing creativity and service to our customers. This will be 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 and with industry and regulatory agencies to ensure we operate to the highest industry standards and levels of accreditation.

Eye for Food Safety and Quality

Enhancing our customers' success by delivering consistently high quality and value

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 on-going 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.

Group Global Quality Policy and Quality Management System

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.

Nutrition/wellbeing

As a leading manufacturer and supplier of food ingredients and consumer food products, Kerry recognises the importance of nutrition for the health and wellbeing of consumers. We are committed to ensuring that our products can be consumed with confidence as part of a well-balanced diet. To this effect we have established four areas of priority which underline our commitment to consumers and support the key principles of a balanced diet, namely;

1. Nutritional expertise and positive nutrition
2. Consumer information
3. Marketing
4. Collaboration

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 500 scientists and food science specialists throughout its Global Centres of Excellence and satellite research centres. In 2011, Group expenditure on research, development and application increased to €167m.

The Group is committed to a positive nutrition programme which ensures our consumers are consistently receiving healthier products in line with their changing health and nutrition needs. Independent experts evaluate this programme ensuring its objectives are achieved such as reductions in overall fat, salt and sugar, whilst also addressing the area of portion control.

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

Kerry continues to work with relevant organisations and government bodies to promote the best possible solutions to questions of health and nutrition. We actively participate in food and nutrition groups, ensuring an industry-wide approach to diet and nutrition issues. We also believe in contributing to and co-operating with health organisations in supporting national health awareness campaigns.

Our primary focus is 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.

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 on-going improvement programmes in place with respect to energy utilisation, water intake, effluent and waste; and we are progressing towards the establishment of Group targets across these KPI's. 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 is 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 made good progress globally in meeting the above targets. 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.

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 pro-active way through waste prevention and minimisation, re-use, 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.
- 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

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.

WORKPLACE

Kerry Group's success has been built around the commitment, skills and creativity of the Group's employees. Retaining and developing their enthusiasm and determination to succeed is central to the Group's strategy for growth and development.

Kerry's Code of Conduct demonstrates our commitment to providing a safe and healthy environment in which to work. Business conduct that demonstrates respect for co-workers, suppliers, customers and partners is an absolute expectation.

The Group is committed to the principle of equality 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 organization, 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
- Head of Internal Audit
- Or the Group's 'Voice a Concern' Ethics Hotline

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

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.

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.

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. These areas are of critical importance to our customers, consumers, employees, shareholders and the communities in which we operate.

In 2008 the Group engaged in a three-way partnership between Concern (Ireland's largest humanitarian organisation working in the world's poorest countries), Kerry Group and the Washington based International Food Policy Research Institute (IFPRI) to progress a major international research initiative towards alleviating world hunger. The aim of the three year research programme was to develop innovative policies and solutions which would ease hunger and malnutrition, which currently afflicts 900 million people globally.

Using the learnings from the concluded research project, in 2011 Kerry Group and Concern Worldwide announced a major pioneering initiative aimed at improving undernutrition and mortality rates in children under two years of age in the developing world.

The RAIN (Realigning Agriculture to Improve Nutrition) project will see Kerry Group contribute €1.25m of the overall €3.7m budget to the five year initiative, which will be conducted in Zambia. RAIN is positioned to be among the few projects worldwide that will fill the evidence gap that currently exists around integrated agriculture and nutrition projects. The specific objective of the five-year project is to reduce the prevalence of chronic malnutrition among pregnant mothers and young children and to improve the nutritional status of vulnerable populations in the region of Mumbwa District, Western Zambia.

In line with both organisations' sustainability policies, it is intended that the RAIN project model can then be scaled up and replicated in other areas of Zambia and in other countries where Concern is working and that this will significantly influence international policy in relation to prevention of childhood stunting internationally. 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.

The RAIN (Realigning Agriculture to Improve Nutrition) project will see Kerry Group contribute €1.25m of the overall €3.7m budget to the five year initiative, which will be conducted in Zambia.

Arising from the slowdown in economic development in Ireland, the Group has devoted increased financial resources to the promotion of entrepreneurship. This includes 'Your Country, Your Call' – a competition based initiative to promote transformational proposals which will help to secure prosperity and employment in Ireland, and the 'Endeavour' programme – Ireland's leading fast-track programme for business start-ups which aims to attract high-quality candidates who have a strong ability to succeed in the entrepreneurial world. This prestigious two phase programme offers candidates access to business expertise through its international mentor base, along with incubation space and support structures in the global marketplace. As Corporate Partner of Endeavour, Kerry Group is making a significant financial contribution to the project, as well as offering our international business expertise in support of the new start-ups planning to operate in global markets.

Directors & Other Information

Directors

Mr. Denis Buckley
Chairman

Mr. Stan McCarthy
*Chief Executive Officer**

Mr. Brian Mehigan
*Chief Financial Officer**

Mr. Gerry Behan
*President & CEO Kerry Ingredients & Flavours**

Mr. Flor Healy
*CEO Kerry Foods**

Mr. Kieran Breen

Mr. Denis Carroll

Mr. Michael Dowling

Mr. Patrick G. Flahive

Ms. Joan Garahy

Mr. Noel Greene

Mr. James C. Kenny

Mr. Gerard O'Hanlon

Mr. Michael Teahan

Mr. Philip Toomey

Mr. Denis Wallis

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

*Executive

Secretary and Registered Office

Mr. Brian Durran
Prince's Street
Tralee
Co. Kerry
Ireland

Registrar and Share Transfer Office

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

Website

www.kerrygroup.com

Report of the Directors

The Directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2011.

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 and operating a Level 1 American Depositary Receipt (ADR) Programme through BNY Mellon, USA, Kerry has 150 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 and 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 attributable to equity shareholders of **€361m** for the year. Earnings per share (EPS) before brand related intangible asset amortisation and non-trading items (net of related tax) increased **11.1%** over 2010 to **213.4 cent** (2010: 192.1 cent). Basic EPS for the year is reported at **205.5 cent** (2010: 185.0 cent). Revenue for the year amounted to **€5.3 billion** (2010: €5.0 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 20 February 2012, the Directors recommended a final dividend totalling **€39.3m** in respect of the year ended 31 December 2011 (see note 10 to the financial statements). This final dividend per share is an increase of **12.0%** over the final 2010 dividend paid on 13 May 2011. This dividend is in addition to the interim dividend paid to shareholders on 11 November 2011, which amounted to **€17.2m**.

The payment date for the final dividend will be 11 May 2012 to shareholders registered on the record date 13 April 2012.

Share capital

Details of the share capital are shown in note 26 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 **175,534,812** shares were in issue at 31 December 2011.

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 5 August 2012 and it is intended to seek shareholder approval for a new authority at the Annual General Meeting (AGM) to be held on 2 May 2012.

During 2011, **17,606** share options granted under the Company's Long Term Incentive Plan were exercised. Further details are shown in note 27 to the financial statements. The Group's Executive Share Option Scheme terminated on 1 October 2010 and accordingly there are no share options outstanding at 31 December 2011.

The Company may purchase its own shares in accordance with the Companies Acts and the Company's Articles

of Association. At the 2011 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 10 May 2012 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 51 and 56.

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.

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. 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 **€167.1m** in 2011 (2010: €156.4m).

Employees

Kerry Group's success is built around the commitment, skills and creativity of the Group's employees. Retaining and developing their enthusiasm and determination to succeed is central to the Group's growth strategy in the years ahead.

The diverse international organisations within the Group require a dedication to communication, employee engagement and the exchange of ideas to facilitate creativity and effective knowledge management.

Kerry will continue to ensure excellence in management practices through the ongoing development of business aligned human resource programmes and initiatives. The Group provides 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 compliance and anti-discrimination legislation.

The average employment of the Group worldwide in 2011 was **24,045** (2010: 22,468).

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 Group Sustainability Policy across all operations and worldwide activities. 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 and 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 ensure that the Consumer Foods division continues to outperform market growth rates. 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 45.

Mr. Denis Buckley
Non-executive Director
Chairman of the Company
Age 66

Denis Buckley was appointed to the Board on 6 June 1986 and has served as a Director for 26 years. He has served as Chairman for eight years, having been appointed in August 2003. He has been a member of the Remuneration and Nomination Committee for 15 years following his appointment in 1996. Denis is a director of Aryzta AG and is Chairman of One Fifty One plc and the Irish Agricultural Wholesale Society Limited.

Mr. Stan McCarthy
Executive Director
Chief Executive Officer
Age 54

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 Representative Office 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 13 years. He was appointed Group Chief Executive Officer on 1 January 2008 and has served in this role for four years.

Mr. Brian Mehigan, FCA
Executive Director
Chief Financial Officer
Age 50

Brian Mehigan joined Kerry Group in 1989, having worked in practice for six years previously. 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 ten 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.

Mr. Gerry Behan
Executive Director
President & Chief Executive Officer of Kerry Ingredients & Flavours
Age 47

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. He was appointed President and Chief Executive Officer of Kerry Ingredients & Flavours global business on 19 December 2011.

Mr. Flor Healy
Executive Director
Chief Executive Officer of Kerry Foods
Age 49

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 eight years.

Mr. Kieran Breen
Non-executive Director
Age 57

Kieran Breen was 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.

Mr. Denis Carroll
Non-executive Director
Age 61

Denis Carroll was appointed to the Board on 1 January 2005 and has served as a Director for seven 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.

Mr. Michael Dowling
Non-executive Director
Age 67

Michael Dowling was appointed to the Board on 3 March 1998 and has served as a Director for 14 years. He chairs the Audit Committee having been appointed in January 2000 and has held this position for 12 years. He was a member of the Remuneration and Nomination Committee to which he was appointed in January 2001 and has served for 11 years. Since the split of this Committee into two Committees, Michael continues to be a member of the Nomination Committee but 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.

Mr. Patrick G. Flahive
Non-executive Director
Age 47

Patrick G. Flahive was 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.

Ms. Joan Garahy
Non-executive Director
Age 49

Joan Garahy was appointed to the Board on 11 January 2012. As well as being a director of a number of private companies, Joan is Managing Director of ClearView Investments & Pensions Ltd, an independent financial advisory company. She has 22 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.

Mr. Noel Greene
Non-executive Director
Age 55

Noel Greene was appointed to the Board on 13 January 2006 and has served as a Director for six years. Noel operates his own business in the agribusiness sector and is also a director of Kerry Co-operative Creameries Limited.

Mr. James C. Kenny
Non-executive Director
Age 58

James C. Kenny was appointed to the Board 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.

Mr. Gerard O'Hanlon
Non-executive Director
Age 63

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

Mr. Michael Teahan
Non-executive Director
Age 44

Michael Teahan was appointed to the Board 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.

Mr. Philip Toomey
Non-executive Director
Age 58

Philip Toomey was appointed to the Board on 20 February 2012. Philip recently retired as 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 to membership of the Audit Committee on the same date.

Mr. Denis Wallis
Non-executive Director
Age 62

Denis Wallis was appointed to the Board on 29 January 2003 and has served as a Director for nine 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

The Board of Directors were deeply saddened at the passing of our colleague Kevin Kelly whose death occurred on 4 January 2012. Kevin served as a Director of the Company since 2001. He was a member of the Audit Committee and also chaired the Group's Remuneration and Nomination Committee. The Directors offer their sincere condolences to the Kelly family and wish to record their appreciation for Kevin's individual contributions and service to the Kerry organisation.

Mr. Michael J. Sullivan did not seek re-election at the AGM in 2011 and retired from the Board following the meeting's conclusion.

Mr. James C. Kenny was appointed to the Board on 1 June 2011. Mr. Michael J. Fleming retired from the Board and Mr. Michael Teahan and Ms. Joan Garahy were appointed to the Board on 11 January 2012. Mr. Philip Toomey was appointed to the Board on 20 February 2012.

Election of Directors

Under Article 102 of the Company's Articles of Association, Ms. Joan Garahy, Mr. James C. Kenny, Mr. Michael Teahan and Mr. Philip Toomey, who were appointed to the Board since the previous AGM will retire at the next AGM and, being eligible, all are 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%
Capital Research and Management Company	10,865,824	6.2%

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 2009, Article 4 of the IAS Regulations and the Listing Rules of the Irish and London Stock Exchanges. 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 2011 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 2011 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 2011 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 except in relation to the requirement to appoint a senior independent director. On 20 February 2012, Philip Toomey was appointed as the Senior Independent Director.

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. While the current Board size is 16, the Board undertook a review of its refreshment policy during the year including engagement with the Company's largest shareholder KCC following which, KCC undertook to nominate no more than four non-executive Directors for appointment to the Board effective 1 January 2014. KCC currently nominates seven candidates for appointment.

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 international experience, necessary to lead the Company. As detailed on pages 57 and 58, the key risks and challenges facing the Group relate to commercial and financial 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;
— 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.

The executive Directors of the Company are responsible for the management of the Group's business and the implementation of Group strategy and policy.

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.

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 on 20 February 2012.

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 six 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 175,534,812 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 2011 was €6.3 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 appointed 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 is 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 2011 it met on nine occasions. Attendances at scheduled Board and Board Committee Meetings during the year ended 31 December 2011 are shown in the table on page 54.

Board appraisal

The non-executive Directors meet, at least annually, as a group without the executive Directors present. During such meetings, the non-executive Directors have the opportunity to discuss any issues and, at least annually, appraise the Chairman's performance.

At a meeting in November 2011 the non-executive Board members, led by the Chairman, undertook a formal review of its own performance, its committees and individual Directors. In relation to the Board itself, performance evaluation was conducted through a review of a range of issues including:

	Board		Remuneration & Nomination Committee		Audit Committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Gerry Behan	9	8	–	–	–	–
Kieran Breen	9	8	–	–	–	–
Denis Buckley	9	9	5	5	–	–
Denis Carroll	9	8	–	–	4	4
Michael Dowling	9	9	5	5	4	4
Patrick G. Flahive	9	9	–	–	–	–
Michael J. Fleming	9	8	–	–	–	–
Noel Greene	9	9	–	–	–	–
Flor Healy	9	9	–	–	–	–
Kevin Kelly	9	7	5	4	4	3
James C. Kenny*	9	5	–	–	–	–
Stan McCarthy	9	9	–	–	–	–
Brian Mehigan	9	9	–	–	–	–
Gerard O'Hanlon	9	9	–	–	–	–
Denis Wallis	9	9	–	–	4	4

*Mr. James C. Kenny was appointed a Director on 1 June 2011.

— Board composition;
— ability and effectiveness;
— role and responsibilities;
— strategic development;
— financial control; and
— risk management.

A similar process was conducted for the evaluation of the Audit Committee and Remuneration and Nomination Committee with additional focus given to the experience, expertise and knowledge of the members on the respective committees.

The Chairman appraised each of the non-executive Directors individually on issues such as 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 spent and commitment to their role on the Board.

At the same meeting, the non-executive Directors formally appraised the performance of the Chairman, who was not present for this part of the meeting. The appraisal was in the same format as that used for the evaluation of the other non-executive Directors where leadership, communication and agenda-setting skills were also addressed. Additionally, an external evaluation of Board performance will be conducted in 2013.

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 subject themselves for re-election by shareholders on an annual basis. The Board sets out to shareholders, in the papers accompanying a resolution to elect and re-elect a non-executive Director, why they believe an 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.

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 of 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. The Board conducts a rigorous review of any non-executive Director who has served on the Board for more than six years after taking into account the need for progressive refreshment of the Board. Following this review, the Board may appoint the Director for additional terms limited to one year in duration. 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.

Board Committees

The Board has delegated authority to two committees of the Board on a number of specific matters as detailed below:

Audit Committee

During 2011, the Audit Committee comprised of four independent non-executive Directors, Mr Kevin Kelly, Mr. Denis Carroll, Mr. Denis Wallis and was chaired by Mr. Michael Dowling. The Committee met four times during the year.

The Board determined that Mr. Kevin Kelly, FCA, in particular had recent and relevant financial experience and that the other members of the Committee have a wide range of business experience. Mr. Denis Wallis and Mr. Denis Carroll both retired from the Committee effective 20 February 2012. Following the untimely passing of Mr. Kevin Kelly, Mr. Philip Toomey and Ms. Joan Garahy were appointed to the Committee on 20 February 2012. Both Mr. Toomey and Ms. Garahy have recent and relevant financial experience.

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 main role and responsibilities of the Committee are set out in written terms of reference and are available from the Group's website www.kerrygroup.com and upon request.

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. This review focused on, but was 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.

The Committee has agreed a process under which it reviews its own effectiveness and recommends any necessary changes to the Board.

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 the annual work programme, significant findings and management's response on reports issued 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.

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 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 financial statements. The Audit Committee also approved the remuneration for the external auditor. The Committee has recommended to the Board that the external auditor be proposed for reappointment by shareholders at the AGM.

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.

The Board, through the Audit Committee, completed an assessment of the Group's risk and controls. The Risk Oversight Committee and the Internal Audit function

facilitated the Board in this assessment by preparing a consolidated Group Risk Register and Control Report for their review. The Risk Oversight Committee monitors the risk environment for the Group. Specifically, the Committee undertakes or delegates the responsibility to identify and prioritise significant risks, evaluate the effectiveness of the risk mitigation activities and ensure gaps in effectiveness are addressed. Where necessary, the Audit Committee will convene to deal with any significant control weaknesses reported by internal audit and management.

Remuneration and Nomination Committee
During the year the Remuneration and Nomination Committee comprised Mr. Kevin Kelly (Chairman), Mr. Denis Buckley and Mr. Michael Dowling, three independent non-executive Directors.

With effect from 1 January 2012, this committee was split into two separate Committees to be known as the Remuneration Committee and Nomination Committee respectively. The terms of reference of both Committees are available on the Group's website. The role and composition of the Remuneration Committee and the remuneration policy is outlined in the Remuneration Report on page 60.

Following Mr. Kelly's untimely passing in early January, the Board agreed that Mr. Denis Buckley will take over the role of Chairman of the Nomination Committee and Mr. James C. Kenny will join the Committee. These changes are effective 20 February 2012.

The Nomination Committee is responsible for reviewing Board composition and succession planning for the Board and senior management positions. There is a formal, rigorous and transparent procedure for the nomination for appointment of new Directors to the Board. KCC nominates its candidates to the Board from its own extensive election and selection processes. Other candidates for nomination are selected using the services of leading global recruitment consultants who assist in the identification, interview and selection process. 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 and independence deemed appropriate and reflecting the global nature of the Company.

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 their 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.

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 of 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 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 51 with the responsibilities of the Company's Independent Auditors outlined on page 68.

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 2012, 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 15 to 26 and the Financial Review on pages 28 to 34. The principal risks and uncertainties facing the Group are identified and described on pages 57 and 58. 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 28 to 34. 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 and 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 standard management processes adopted in the businesses along with the Group's internal control and risk management processes described in the next section.

The principal risks and uncertainties facing the Group are as follows:

Commercial risks

The Group may experience loss of revenue growth momentum due to unforeseen events that impact brands, customers' brands, consumer dietary changes or food consumption patterns. The spread of the Group's business and experience in numerous territories limits the concentration of these risks and allows mitigation through management actions.

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. The Group deploys senior managers and subject matter experts in such areas to manage and mitigate such risks and adopt strategies over time to improve the positioning of the businesses in this regard.

A sudden acceleration or slow down in the rate of innovation in significant markets can impact both ingredients and flavours and consumer foods businesses if the Group is not appropriately aligned. Investing a significant level of resources ensures the right technological response to each market.

In a given market, a slow rate of innovation or stagnation of consumer trends can lead to commoditisation of a particular category of ingredients. The Group supports customers' drive for choice and market stimulation through new product development. Where this dynamic is absent for a period of time the impact on margins can be negative. Kerry Group works closely with customers and consumers to ensure awareness of trends occurring in the market place both positive and negative.

Other commercial risks can be considered under the heading of operational and technical compliance. These 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 indeed in relation to the potential outbreak of disease in an animal population or contamination in any particular food category. The 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 and disciplines to reduce the level of risk encountered to a minimal level.

Possibly the largest commercial risk is the Group executing a value destroying acquisition or large capital project. 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. However the risk inherent in this area is very much to the fore in contemplating and managing such projects.

The loss of a critical manufacturing facility, through natural catastrophe, fire, act of vandalism and the failure of critical information systems to support our operations could result in a significant impact on the Group. In addition to the insurance cover in place to mitigate and reduce any financial impact to the Group, business continuity plans are in place across the Group and are reviewed with management regularly.

To support our 1 Kerry Strategy and to facilitate future business growth and expansion, in 2010 the Board approved our Kerryconnect programme which will establish a common Information Communication and Technology (ICT) strategic development approach and integrated systems throughout the Group. The Kerryconnect programme is a major undertaking and investment by the Group. The Group has a robust governance structure, programme management and implementation teams in place led by two executive Directors of the Group.

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 do 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.

As with any business, there is always a risk of fraudulent activity. The Group has a strong control framework and a specific anti-fraud programme 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 on a confidential basis.

Financial risks

The geographic spread of the Group's business (across 25 countries of manufacture and 140 in terms of revenue) provides a number of challenges in relation to financial and market risks and uncertainties. These risks include ensuring finance is available to the Group to carry out its mission, treasury risks, foreign exchange risks, interest rate risks, credit rating risk and market risk in relation to employee retirement obligations. Specifically, currency volatility and credit availability have become more significant than in the past. In addition, risks such as inaccurate or delayed stock market reporting, internal control systems failure and ICT systems failure could be considered under this heading. These risks and the Group's response to managing these risks are set out in detail in note 23 to the financial statements.

In light of the economic and financial environment currently facing the Eurozone at the date of this report, risks relating to the future of the euro currency must also be considered under this heading. 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. Kerry 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.

Human resources

The Group is critically aware that its performance in the short or longer term is only as good as the people that manage and run its operations. To this extent every effort is made to ensure optimal procedures and policies are in place to attract, train and retain the capabilities and skill levels appropriate to succeed in the Group's mission and business objectives.

Internal control

The Company, as required by the Irish and London Stock Exchanges, 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 ongoing 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;
- Written 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 ongoing 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 financial, operational, business 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;
- 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 has successfully rolled out 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 programme;
- As part of their normal audit procedures, the external auditors test the systems of internal 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 facilitates 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 policies outlined in the Group's procedures manual 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.

Remuneration Report

Remuneration Committee

During the year, the Remuneration Committee comprised three independent non-executive Directors; Mr. Kevin Kelly (Chairman), Mr. Denis Buckley and Mr. Michael Dowling. The Committee met on four occasions during the year. These meetings principally addressed guidelines on executive salaries, incentive targets, share and option awards, pension rights and long term performance plans.

The Remuneration Committee is responsible for determining the remuneration policy for executive Directors' and their remuneration on an annual basis. The Group 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. Members of the Committee have no personal interest in the outcome of their decisions and give 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. The Committee has used the services of major global leaders in pay and retirement benefits to review and structure the remuneration framework for Directors and senior executives. They include the international offices of Mercer Consulting and Towers Watson.

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

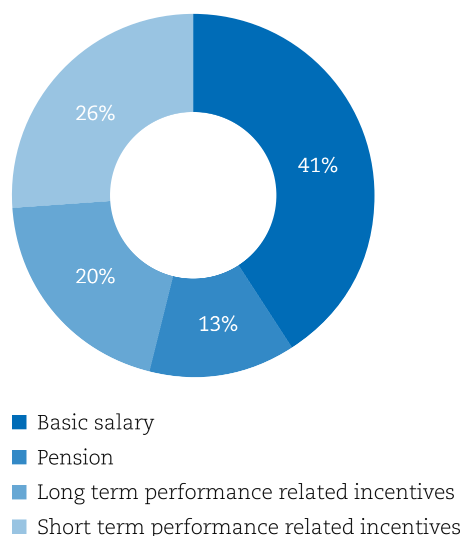
Remuneration policy

The Group's remuneration policy is to ensure that executive Directors' 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 diagram shows the target balance (average of all executive Directors) between the fixed and variable remuneration components:



- Basic salary
- Pension
- Long term performance related incentives
- Short term performance related incentives

As outlined on page 60 there are both fixed and variable components of executive Directors' remuneration. Executive Directors' remuneration comprises the following:

Type of remuneration	Purpose	Summary
1. Basic salary	Reflects the value of the individual, their skills and experience	This is referenced to job responsibility and internal/external market data
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
3. 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
4. Pensions and other benefits	Provides competitive post-retirement benefits and as a retention tool	In line with market norms in country of residence

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 basic salaries of executive Directors are also reviewed in relation to comparable market data. Comparable market data, available directly or through external consultants, is evaluated by the Committee as a means to determine that the base salary of executive Directors is in line with available market data.

Following this review, the Remuneration Committee decided to increase basic salaries in 2011 by 5% on average. This is the first time that the salaries of executive Directors have increased since 2008. The basic salaries of existing Directors had been held static since 2008 despite the success and growth of the Group in deference to the wider issues in the world economy.

2. Short term performance related incentives

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 2011 were a combination of a number of key performance metrics:

— Group adjusted Earnings Per Share (EPS);

— Business Operating Profit;

— Cash Flow Return on Investment (CFROI); and

— Business Operating Cash Flow at divisional level.

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. CFROI was chosen because it best reflects the measure of the Group's return on investment principles. 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 2011 was between 90% and 100% of basic salary.

For 2011, the Group adjusted EPS target was set at 10% annual growth in excess of the 2010 adjusted EPS. The other targets are aligned by individual responsibilities to this adjusted EPS target above and the long term Group target of 12% CFROI.

For 2012 the performance related incentives will remain broadly unchanged from 2011 as the Remuneration Committee believes these measures remain aligned with the delivery of the Group's strategy and ensure alignment with the interests of the shareholders.

3. Long term performance related incentives

a) Long Term Incentive Plan (LTIP)

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.

The first conditional awards were made in 2006 and these awards partially vested in September 2009. Conditional awards have been made in March 2009, 2010 and 2011 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 27 to the financial statements.

The proportion of each conditional award which vests will depend on the 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 over the same period.

This measurement shall 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 +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%

The growth in Kerry's adjusted EPS shall 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 2009 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 shall consist of Kerry and the following companies:

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

When assessing whether the performance hurdle has been met, this measurement shall be determined by reference to the ranking of Kerry's TSR over 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 below table:

Position of Kerry in the peer group	Percentage of the Award which vests
Below median	0%
Median	30%
Between median and 75th percentile	Straight line between 30% and 100%
Greater than 75th percentile	100%

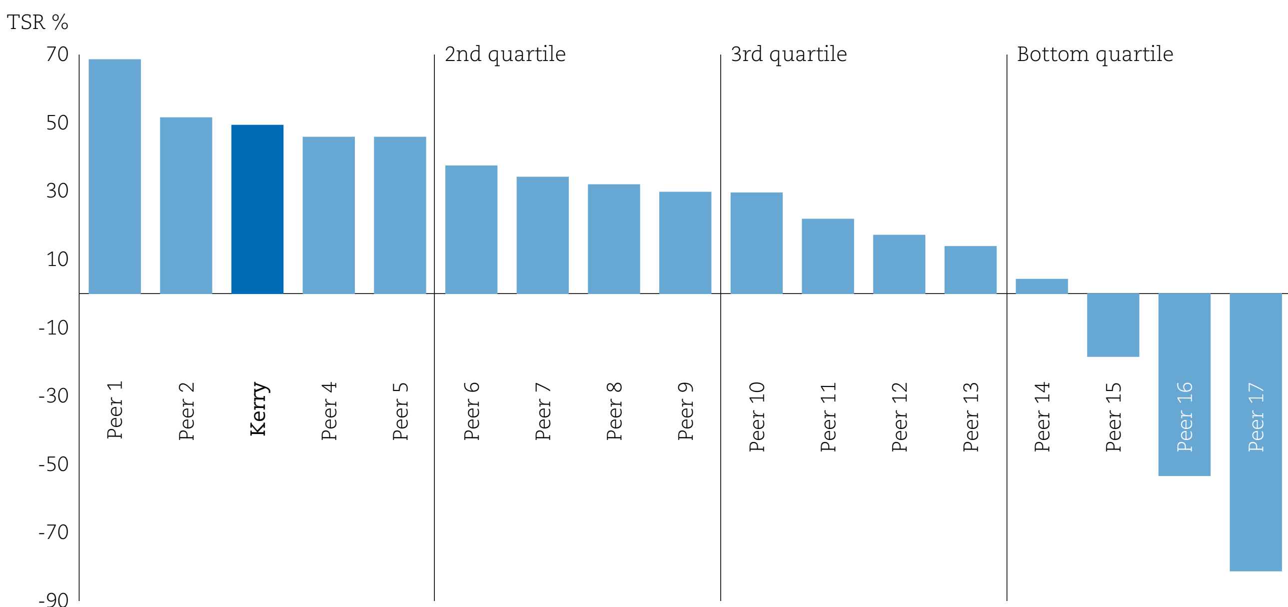
The Committee may make adjustments to the peer group where necessary to take account of mergers, acquisitions, demergers or a company ceasing to trade provided that, as a result, this TSR performance condition will be neither materially easier nor more difficult to achieve. TSR for each company in the 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 2009 to 31 December 2011 for the LTIP awards which were issued in 2009. These awards have a vesting date on or before 30 June 2012.

Taking into account the TSR performance of the Group versus the peer group, 100% of the awards granted under the 2009 LTIP will potentially vest in 2012.

3 Year TSR: Kerry and Peer Group 1 January 2009 – 31 December 2011

TSR calculated in Euro and based on 12 month average share price for each peer



b) Old Executive Share Option Scheme
This scheme concluded in October 2010 and as a result no share options were issued or exercised during the year. The last grant to executive Directors under this scheme was in 2002 and none of the options are outstanding. Share options that were awarded under the Executive Share Option Scheme were equity settled shares and were exercisable at a price equal to the average quoted market price of the Company's shares at the date of grant.

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 provision for the executive Directors impacted by the lifetime earnings cap in Ireland began during 2011 and will be concluded during 2012.

Other benefits relate primarily to motor vehicles.

Service contracts

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

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 award over a pre-defined period of time.

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/superannuation arrangements or other elements of remuneration provided to the executive Directors.

Directors' remuneration

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

(a) Executive Directors' remuneration

	Basic Salaries 2011 €'000	Performance Related 2011 €'000	Benefits-in-kind 2011 €'000	Pensions[1] 2011 €'000	Total 2011 €'000	Total 2010 €'000
Stan McCarthy[2]	882	689	42	194	1,807	2,116
Brian Mehigan	485	341	22	110	958	1,015
Flor Healy	525	119	12	94	750	975
Gerry Behan[2]	487	451	36	109	1,083	1,166
	2,379	1,600	112	507	4,598	5,272

Note 1: A review of pension provision for the executive Directors impacted by the lifetime earnings cap in Ireland began during 2011 and will be concluded during 2012. The figures shown in the table are the estimated accounting cost to the Group of pension provision for 2011 done on a consistent basis with previous years. The figures will be finalised once the review has concluded.

Note 2: Reported numbers impacted by the US dollar to euro exchange rate.

(b) Non-executive Directors' remuneration

	Fees 2011 €	Fees 2010 €
Kieran Breen	38,093	–
Denis Buckley	209,000	209,000
Denis Carroll	53,895	53,820
Michael Dowling	110,000	110,000
Patrick G. Flahive	37,220	–
Michael J. Fleming	34,927	38,160
Noel Greene	38,093	38,160
Kevin Kelly	110,000	110,000
James C. Kenny	42,000	–
Donal O'Donoghue	–	34,980
Gerard O'Hanlon	38,093	38,160
Michael J. Sullivan	30,417	73,000
John Twomey	–	31,786
Denis Wallis	53,895	53,820
	795,633	790,886

Non-executive Directors' remuneration consists of fees only. The total remuneration for all Directors in 2011 amounted to **€5,393,633** (2010: €6,062,886). There were no other emoluments paid to the executive or non-executive Directors other than as disclosed above.

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.

	Conditional Awards at 1 January 2011	Awards lapsed/ cancelled during the year	Share Awards vested during the year	Share Option Awards vested during the year	Conditional Awards granted during the year	Conditional Awards at 31 December 2011
Directors						
Stan McCarthy	93,115	–	–	–	35,772	128,887
Brian Mehigan	47,592	–	–	–	17,321	64,913
Flor Healy	51,730	–	–	–	18,750	70,480
Gerry Behan	51,730	–	–	–	17,792	69,522
Company Secretary						
Brian Durran	14,277	–	–	–	5,546	19,823

Conditional awards at 1 January 2011 relate to awards granted in 2009 and 2010 which have a three year performance period. These awards will potentially vest on or before 30 June 2012 and 30 June 2013 respectively. The market price of the shares on the date of each award is disclosed in note 27 to the financial statements.

Conditional awards made in 2011 have a three year performance period and will potentially vest on or before 30 June 2014.

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

	Share Options outstanding at 1 January 2011	Share Options exercised during the year	Share Options outstanding at 31 December 2011	Exercise price per share
Directors				
Brian Mehigan	4,400	–	**4,400**	€0.125
Flor Healy	4,400	–	**4,400**	€0.125

Share options outstanding at 31 December 2011 are exercisable until September 2016.

Directors' and Company Secretary's interests in Executive Share Option Scheme

No Director held share options in the Company under this scheme during the year. This scheme concluded in October 2010 and as a result no share options were issued or exercised during the year.

Payments to former Directors

Payments made to former Directors in relation to consultancy and other accrued fees amounted to **€nil** in 2011 (2010: €667,000).

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[1]		
	Increase during year (excluding inflation) €'000	Accumulated total at end of year €'000	Transfer value of increase in accumulated accrued benefits €'000
Stan McCarthy	79	676	409
Brian Mehigan	16	220	170
Flor Healy	15	246	148
Gerry Behan	44	287	125
2011	**154**	**1,429**	**852**
2010	201	1,235	1,099

Note 1: While the pension arrangements of those Directors impacted by the lifetime earnings cap is under review the data in this table is set out on a basis consistent with previous years.

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 2011 Number	31 December 2010 Number
Directors		
Gerry Behan	8,913	8,913
Kieran Breen	8,191	6,966
Denis Buckley	178,592	169,755
Denis Carroll	5,428	4,236
Michael Dowling	4,200	4,200
Patrick G. Flahive	35,696	31,201
Michael J. Fleming	5,459	4,001
Noel Greene	5,144	4,299
Flor Healy	53,994	46,342
Kevin Kelly	23,200	23,200
James C. Kenny	–	–
Stan McCarthy	40,679	40,679
Brian Mehigan	40,334	40,334
Gerard O'Hanlon	49,231	40,558
Denis Wallis	4,133	3,567
Company Secretary		
Brian Durran	13,000	13,000

The above holdings in ordinary shares have not changed between 31 December 2011 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.

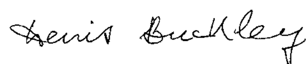
Retirement benefits

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 2011.

Signed on behalf of the Board on 20 February 2012



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 2011 which comprise the Group Financial Statements including the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Financial Statements including the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Cash Flow Statement and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report, including the preparation of the Group Financial Statements and the Parent Company Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

We report to you our opinion as to whether the Group Financial Statements and the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009, and Article 4 of the IAS Regulation. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the parent company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description in the annual corporate governance statement set out in the Report of the Directors 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. In addition, we review whether the Corporate Governance Statement reflects 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 by the Listing Rules of the Irish Stock Exchange and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Business Review, the Financial Review, the Sustainability Review and the Report of the Directors. Our responsibilities do not extend to other information.

Basis of audit opinion

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

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

Opinion

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 affairs of the group as at 31 December 2011 and of its profit for the year then ended;

— the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulations;

— 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 2009, of the state of the parent company affairs as at 31 December 2011; and

— the Parent Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the parent company. The parent 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 annual 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 parent company balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 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.

Kevin Sheehan
For and on behalf of Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

20 February 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	2011 €'m	2010 €'m
Continuing operations			
Revenue	2	5,302.2	4,960.0
Trading profit	2/3	500.5	470.2
Intangible asset amortisation	12	(19.3)	(16.1)
Non-trading items	5	(1.8)	(0.8)
Operating profit	3	479.4	453.3
Finance income	6	0.9	0.9
Finance costs	6	(46.9)	(61.4)
Profit before taxation		433.4	392.8
Income taxes	7	(72.7)	(68.6)
Profit after taxation and attributable to equity shareholders		360.7	324.2
Earnings per A ordinary share		Cent	Cent
– basic	9	205.5	185.0
– diluted	9	205.4	184.7

The financial statements were approved by the Board of Directors on 20 February 2012 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 2011

	Notes	**2011 €'m**	2010 €'m
Profit for the year after taxation		**360.7**	324.2
Other comprehensive (expense)/income:			
Fair value movements on cash flow hedges	23	**(7.1)**	22.0
Exchange difference on translation of foreign operations	29	**11.5**	57.3
Actuarial losses on defined benefit post-retirement schemes	25	**(112.5)**	(30.3)
Deferred tax on items taken directly to reserves	*16*	**18.6**	2.0
Net (expense)/income recognised directly in other comprehensive income		**(89.5)**	51.0
Reclassification to profit or loss from equity:			
Cash flow hedges	23	**(2.5)**	1.2
Available-for-sale investments	13	**–**	7.4
Total comprehensive income		**268.7**	383.8

Consolidated Balance Sheet

as at 31 December 2011

	Notes	2011 €'m	2010 €'m
Non-current assets			
Property, plant and equipment	11	1,208.7	1,107.2
Intangible assets	12	2,294.6	1,998.9
Financial asset investments	13	19.3	8.2
Non-current financial instruments	22	84.0	42.7
Deferred tax assets	16	10.2	8.9
		3,616.8	3,165.9
Current assets			
Inventories	15	658.5	531.6
Trade and other receivables	18	709.8	618.7
Cash and cash equivalents	22	237.9	159.3
Other current financial instruments	22	1.4	4.7
Assets classified as held for sale	17	5.6	5.4
		1,613.2	1,319.7
Total assets		5,230.0	4,485.6
Current liabilities			
Trade and other payables	19	1,136.9	1,017.9
Borrowings and overdrafts	22	39.0	181.3
Other current financial instruments	22	16.5	12.2
Tax liabilities		25.2	34.4
Provisions	24	26.1	18.3
Deferred income	20	2.3	2.5
		1,246.0	1,266.6
Non-current liabilities			
Borrowings	22	1,559.9	1,123.2
Other non-current financial instruments	22	10.7	–
Retirement benefits obligation	25	277.5	194.7
Other non-current liabilities	21	63.1	55.3
Deferred tax liabilities	16	173.0	166.4
Provisions	24	33.1	30.7
Deferred income	20	21.4	21.7
		2,138.7	1,592.0
Total liabilities		3,384.7	2,858.6
Net assets		1,845.3	1,627.0
Issued capital and reserves attributable to equity holders of the parent			
Share capital	26	21.9	21.9
Share premium account		398.7	398.7
Other reserves		(94.3)	(98.2)
Retained earnings		1,519.0	1,304.6
Shareholders' equity		1,845.3	1,627.0

The financial statements were approved by the Board of Directors on 20 February 2012 and signed on its behalf by:

Denis Buckley, Chairman

Stan McCarthy, Chief Executive Officer

Company Balance Sheet

as at 31 December 2011

	Notes	2011 €'m	2010 €'m
Non-current assets			
Property, plant and equipment	*11*	**1.4**	1.6
Investment in subsidiaries	*14*	**638.7**	638.7
		640.1	640.3
Current assets			
Trade and other receivables	18	**–**	10.0
Cash and cash equivalents	22	**–**	0.1
		–	10.1
Total assets		**640.1**	650.4
Current liabilities			
Trade and other payables	19	**12.9**	23.3
Borrowings and overdrafts	22	**1.1**	0.6
		14.0	23.9
Non-current liabilities			
Other non-current liabilities	21	**135.2**	112.6
Deferred income	20	**0.2**	0.2
		135.4	112.8
Total liabilities		**149.4**	136.7
Net assets		**490.7**	513.7
Issued capital and reserves attributable to equity holders of the parent			
Share capital	26	**21.9**	21.9
Share premium account		**398.7**	398.7
Other reserves		**7.4**	5.4
Retained earnings		**62.7**	87.7
Shareholders' equity		**490.7**	513.7

The financial statements were approved by the Board of Directors on 20 February 2012 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 2011

	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Total €'m
Group:						
At 1 January 2010		21.8	395.2	(187.4)	1,054.4	1,284.0
Total comprehensive income		–	–	87.9	295.9	383.8
Dividends paid	10	–	–	–	(45.7)	(45.7)
Long term incentive plan expense	27	–	–	1.3	–	1.3
Shares issued during year	26	0.1	3.5	–	–	3.6
At 31 December 2010		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	27	–	–	**2.0**	–	**2.0**
Shares issued during year	26	–	–	–	–	–
At 31 December 2011		**21.9**	**398.7**	**(94.3)**	**1,519.0**	**1,845.3**

Other Reserves comprise the following:

	Capital Redemption Reserve €'m	Capital Conversion Reserve Fund €'m	Long Term Incentive Plan Reserve €'m	Available-for-sale Investment Reserve €'m	Translation Reserve €'m	Hedging Reserve €'m	Total €'m
At 1 January 2010	1.7	0.3	2.1	(7.4)	(158.0)	(26.1)	(187.4)
Total comprehensive income	–	–	–	7.4	57.3	23.2	87.9
Long term incentive plan expense	–	–	1.3	–	–	–	1.3
At 31 December 2010	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	–	–	**2.0**	–	–	–	**2.0**
At 31 December 2011	**1.7**	**0.3**	**5.4**	–	**(89.2)**	**(12.5)**	**(94.3)**

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 2011

	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Total €'m
Company:						
At 1 January 2010		21.8	395.2	4.1	131.2	552.3
Total comprehensive income	8	–	–	–	2.2	2.2
Dividends paid	10	–	–	–	(45.7)	(45.7)
Long term incentive plan expense	27	–	–	1.3	–	1.3
Shares issued during year	26	0.1	3.5	–	–	3.6
At 31 December 2010		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	27	–	–	2.0	–	2.0
Shares issued during year	26	–	–	–	–	–
At 31 December 2011		**21.9**	**398.7**	**7.4**	**62.7**	**490.7**

Other Reserves comprise the following:

	Capital Redemption Reserve €'m	Capital Conversion Reserve Fund €'m	Long Term Incentive Plan Reserve €'m	Total €'m
At 1 January 2010	1.7	0.3	2.1	4.1
Long term incentive plan expense	–	–	1.3	1.3
At 31 December 2010	1.7	0.3	3.4	5.4
Long term incentive plan expense	–	–	2.0	2.0
At 31 December 2011	**1.7**	**0.3**	**5.4**	**7.4**

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 2011

	Notes	2011 €'m	2010 €'m
Operating activities			
Trading profit	28	500.5	470.2
Adjustments for:			
Depreciation (net) and impairment		100.8	148.4
Change in working capital	28	(3.8)	(21.5)
Pension contributions paid less pension expense		(34.0)	(41.1)
Expenditure on non-trading items		(13.9)	(26.4)
Exchange translation adjustment	29	(2.8)	(1.5)
Cash generated from operations		546.8	528.1
Income taxes paid		(75.9)	(54.2)
Finance income received		0.9	0.9
Finance costs paid		(47.5)	(58.5)
Net cash from operating activities		424.3	416.3
Investing activities			
Purchase of property, plant and equipment		(144.3)	(149.2)
Purchase of intangible assets		(29.7)	(1.8)
Proceeds from the sale of property, plant and equipment		9.9	7.2
Capital grants received	20	1.9	4.4
Purchase of subsidiary undertakings (net of cash acquired)	30	(361.6)	(150.7)
Proceeds/(payments) due to disposal of businesses (net of related tax)		5.6	(2.7)
Payment of deferred consideration on acquisition of subsidiaries		(4.3)	(7.8)
Consideration adjustment on previous acquisitions		1.1	3.6
Net cash used in investing activities		(521.4)	(297.0)
Financing activities			
Dividends paid	10	(52.4)	(45.7)
Issue of share capital	26	–	3.6
Net movement on bank borrowings	28	233.0	(201.8)
Net cash movement due to financing activities*		180.6	(243.9)
Net increase/(decrease) in cash and cash equivalents		83.5	(124.6)
Cash and cash equivalents at beginning of year*	28	152.1	268.1
Exchange translation adjustment on cash and cash equivalents	29	1.4	8.6
Cash and cash equivalents at end of year	28	237.0	152.1

	Notes	2011 €'m	2010 €'m
Reconciliation of Net Cash Flow to Movement in Net Debt			
Net increase/(decrease) in cash and cash equivalents		83.5	(124.6)
Cash (inflow)/outflow from debt financing		(233.0)	201.8
Changes in net debt resulting from cash flows		(149.5)	77.2
Fair value movement on interest rate swaps recognised in shareholders' equity		(4.6)	19.4
Exchange translation adjustment on net debt	29	(21.7)	(49.1)
Movement in net debt in the year		(175.8)	47.5
Net debt at beginning of year		(1,111.9)	(1,159.4)
Net debt at end of year	22	(1,287.7)	(1,111.9)

*The 2010 cash and cash equivalents balances have been re-presented to include bank overdrafts of €7.2m in the Consolidated Cash Flow Statement which continue to be included in borrowings and overdrafts in the Consolidated Balance Sheet.

Company Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 €'m	2010 €'m
Operating activities			
Trading profit	28	26.7	1.2
Adjustments for:			
Depreciation (net)		0.2	0.2
Change in working capital	28	25.0	40.0
Net cash from operating activities		51.9	41.4
Investing activities			
Payment of deferred consideration on acquisition of subsidiaries		(0.1)	(0.2)
Net cash used in investing activities		(0.1)	(0.2)
Financing activities			
Dividends paid	10	(52.4)	(45.7)
Issue of share capital	26	–	3.6
Net cash movement due to financing activities*		(52.4)	(42.1)
Net decrease in cash and cash equivalents		(0.6)	(0.9)
Cash and cash equivalents at beginning of year*	28	(0.5)	0.4
Cash and cash equivalents at end of year	28	(1.1)	(0.5)

*The 2010 cash and cash equivalents balances have been re-presented to include bank overdrafts of €0.6m in the Company Cash Flow Statement which continue to be included in borrowings and overdrafts in the Company Balance Sheet.

Notes to the Financial Statements

for the year ended 31 December 2011

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 Irish law and the Listing Rules of the Irish and London Stock Exchanges. 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 by Kerry Group plc.

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

The financial statements have been prepared on a going concern basis and further details can be found on page 57 of the Directors' Report.

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.

— 'Non-trading items' refers to gains or losses on the disposal or acquisition of businesses, disposal of non-current assets and material acquisition and integration 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 and net finance costs.

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

In the 2011 financial statements, the Group has re-presented corresponding balances in 2010 to align with the current year presentation. The 2010 cash and cash equivalents balances in the Cash Flow Statements have been re-presented to include bank overdrafts which continue to be included in borrowings and overdrafts on the Balance Sheet. The re-presentation of segmental analysis (note 2) is to reflect changes in management responsibility during the year. Operating profit analysis (note 3) has been re-presented to provide a more detailed analysis to assist users of the financial statements. Adjusted earnings per share (note 9) has been re-presented as computer software amortisation is being treated as a cost in arriving at adjusted earnings per share, which is due to the significance of the Kerryconnect project the Group is currently undertaking. These changes in presentation do not impact on the classification of any line items on the Group's or Company's Balance Sheet and therefore a third balance sheet has not been disclosed as it is unchanged from that previously reported.

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.

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

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

Revenue (continued)

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 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.

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, are 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 installments 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 for an indication 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

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

Impairment of non-financial assets (continued)

the value in use calculations are discount rates and growth rates in addition to expected changes in selling price and direct costs during the year. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties which may not be controlled by management.

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.

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.

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 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. 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. 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. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset exists. 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.

1. Statement of Accounting Policies (continued)

Retirement benefits

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.

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, 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.

1. Statement of Accounting Policies (continued)

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 and an executive share option scheme.

(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.

(b) Executive Share Option Scheme

In accordance with IFRS 2 'Share-based Payment', there is no requirement to recognise any compensation expense in the consolidated financial statements, as no new options have been granted under the Executive Share Option Scheme since 7 November 2002.

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, which approximates to the actual exchange rates for the year. 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.

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

1. Statement of Accounting Policies (continued)

Business combinations (continued)

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 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;
- trade and other payables;
- 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.

(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

1. Statement of Accounting Policies (continued)

Financial instruments (continued)

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, bank overdrafts held by the Group and short term bank deposits with a maturity of three months or less. Cash is 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) Trade and other payables

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 amortised cost

Other non-derivative financial liabilities consist primarily of trade and other payables and borrowings.

(h) 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.

(i) 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 hedged item is adjusted for changes in the fair value of the hedging instruments 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.

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.

1. Statement of Accounting Policies (continued)

Financial instruments (continued)

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 values of financial assets and financial instrument derivatives are determined as follows:

- The fair value of financial assets with standard terms and conditions, and traded on active liquid markets is determined with reference to quoted market prices, which are observable; and
- 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.

The carrying values of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values. In the case of derivative financial instruments their fair value has been recognised in the Consolidated Balance Sheet.

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.

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.

1. Statement of Accounting Policies (continued)

Financial instruments (continued)

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 estimates and assumptions that affect the reported profits, assets and liabilities. The significant estimates and assumptions used in the preparation of the Group's financial statements are outlined in the relevant accounting policies and the notes to the financial statements which are referenced below. These include:

- Income taxes (note 7);
- Property, plant and equipment (note 11);
- Intangible assets (note 12);
- Impairment of property, plant and equipment and intangible assets (notes 11 & 12);
- Financial asset investments (note 13);
- Financial instruments (notes 22 & 23).
- Provisions (note 24); and
- Retirement benefits obligation (note 25).

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.

Standards and Interpretations effective for Kerry Group in 2011 but not material to the Group:		Effective Date
— IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 July 2010
— IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 January 2011
— IFRS 3 (amendment)	Business Combinations	1 July 2010
— IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2011
— IAS 1 (amendment)	Presentation of Financial Statements	1 January 2011
— IAS 24 (amendment)	Related Party Transactions	1 January 2011
— IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 July 2010
— IAS 32 (amendment)	Financial Instruments: Presentation	1 February 2010
— IAS 34 (amendment)	Interim Financial Reporting	1 January 2011
— IFRIC 13 (amendment)	Customer Loyalty Programmes – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
— IFRIC 14 (amendment)	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
— IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Standards and Interpretations which are not yet effective for Kerry Group and not expected to have a material effect:		Effective Date
— IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 July 2011
— IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 January 2015
— IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 July 2011
— IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2015
— IFRS 10	Consolidated Financial Statements	1 January 2013
— IFRS 11	Joint Arrangements	1 January 2013
— IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
— IFRS 13	Fair Value Measurement	1 January 2013
— IAS 1 (amendment)	Presentation of Financial Statements	1 July 2012
— IAS 12 (amendment)	Income Taxes	1 January 2012
— IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 January 2013
— IAS 28 (amendment)	Investments in Associates	1 January 2013
— IAS 32 (amendment)	Financial Instruments: Presentation	1 January 2014

The following revised standards are not yet effective and the impact on Kerry Group is currently under review:		Effective Date
— IAS 19 (amendment)	*Employee Benefits* IAS 19 (2011) requires the expected returns on pension plan assets, currently calculated based on management's estimate of expected returns, to be calculated at the liability discount rate. The Group expects this change will result in an increase in the overall charge to the Consolidated Income Statement but is not expected to impact the Group's net assets.	1 January 2013
— IFRS 9	*Financial Instruments* 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.	1 January 2015

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 2011 €'m	Consumer Foods 2011 €'m	Group Eliminations and Unallocated 2011 €'m	Total 2011 €'m	Ingredients & Flavours 2010* €'m	Consumer Foods 2010* €'m	Group Eliminations and Unallocated 2010* €'m	Total 2010* €'m
External revenue	3,638.1	1,664.1	–	5,302.2	3,351.7	1,608.3	–	4,960.0
Inter-segment revenue	68.3	9.4	(77.7)	–	64.7	14.9	(79.6)	–
Revenue	3,706.4	1,673.5	(77.7)	5,302.2	3,416.4	1,623.2	(79.6)	4,960.0
Trading profit	439.3	130.4	(69.2)	500.5	402.4	130.9	(63.1)	470.2
Intangible asset amortisation	(13.6)	(1.4)	(4.3)	(19.3)	(12.0)	(1.6)	(2.5)	(16.1)
Non-trading items	6.2	(8.0)	–	(1.8)	(0.5)	(0.3)	–	(0.8)
Operating profit	431.9	121.0	(73.5)	479.4	389.9	129.0	(65.6)	453.3
Finance income				0.9				0.9
Finance costs				(46.9)				(61.4)
Profit before taxation				433.4				392.8
Income taxes				(72.7)				(68.6)
Profit after taxation				360.7				324.2
Segment assets and liabilities								
Segment assets	3,267.7	1,114.3	848.0	5,230.0	2,738.2	1,107.5	639.9	4,485.6
Segment liabilities	(820.4)	(472.4)	(2,091.9)	(3,384.7)	(671.5)	(440.3)	(1,746.8)	(2,858.6)
Net assets	2,447.3	641.9	(1,243.9)	1,845.3	2,066.7	667.2	(1,106.9)	1,627.0
Other segmental information								
Property, plant and equipment additions	111.4	31.0	–	142.4	127.5	24.9	–	152.4
Depreciation (net) and impairment	71.0	29.8	–	100.8	87.4	39.3	21.7	148.4
Intangible asset additions	0.5	0.1	29.1	29.7	0.3	0.1	1.4	1.8

*The 2010 segmental analysis has been re-presented to reflect the change in management responsibility during the year.

2. Analysis of results (continued)

Information about geographical areas

	EMEA 2011 €'m	Americas 2011 €'m	Asia Pacific 2011 €'m	Total 2011 €'m	EMEA 2010 €'m	Americas 2010 €'m	Asia Pacific 2010 €'m	Total 2010 €'m
Revenue by location of external customers	3,139.2	1,557.7	605.3	5,302.2	2,972.2	1,479.0	508.8	4,960.0
Segment assets by location	3,329.7	1,494.9	405.4	5,230.0	2,882.7	1,251.9	351.0	4,485.6
Property, plant and equipment additions	70.6	56.6	15.2	142.4	58.8	76.3	17.3	152.4
Intangible asset additions	29.3	0.3	0.1	29.7	1.7	0.1	–	1.8

Kerry Group plc is domiciled in the Republic of Ireland and the revenues from external customers in the Republic of Ireland were **€548.3m** (2010: €581.5m). The segment assets located in the Republic of Ireland are **€1,309.0m** (2010: €1,206.0m).

Revenues from external customers include **€1,706.0m** (2010: €1,606.0m) in the United Kingdom and **€1,202.0m** (2010: €1,143.0m) in the USA.

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 2011 €'m	Continuing Operations 2010* €'m
Revenue		5,302.2	4,960.0
Less operating costs:			
Raw materials and consumables		3,136.4	2,822.7
Other external charges		445.3	435.1
Staff costs		966.1	908.6
Depreciation and impairment	*11/12/13*	103.3	150.7
Capital grants amortisation	20	(2.5)	(2.3)
Other operating charges		236.0	214.4
Foreign exchange (gains)/losses		(7.2)	1.4
Change in inventories of finished goods		(75.7)	(40.8)
Trading profit		500.5	470.2
Intangible asset amortisation	12	19.3	16.1
Non-trading items	5	1.8	0.8
Operating profit		479.4	453.3
And is stated after charging:			
Research and development costs		167.1	156.4

3. Operating profit (continued)

Directors' emoluments

Directors' emoluments are set out in the Directors' remuneration section of the Report of the Directors on pages 64 to 65.

Auditors' remuneration

	Deloitte & Touche Ireland 2011 €'m	Deloitte & Touche Other 2011 €'m	Deloitte & Touche Worldwide 2011 €'m	Deloitte & Touche Ireland 2010* €'m	Deloitte & Touche Other 2010* €'m	Deloitte & Touche Worldwide 2010* €'m
Statutory disclosure:						
Group audit	0.9	1.8	2.7	0.9	1.7	2.6
Other assurance services	–	0.3	0.3	0.1	0.3	0.4
Tax advisory services	1.1	0.4	1.5	0.9	0.5	1.4
Other non-audit services	0.2	0.6	0.8	0.1	2.1	2.2
	2.2	3.1	5.3	2.0	4.6	6.6

Group audit consists of fees payable for the consolidated and statutory audits of the Group and its subsidiaries. Total fees of €7,000 were paid to the Group's auditors in respect of the Parent Company audit in the current and prior year.

*The 2010 comparatives have been re-presented to provide a more detailed analysis to assist the users of the financial statements.

4. Total staff numbers and costs

The average number of people employed by the Group was:

	Ingredients & Flavours 2011 Number	Consumer Foods 2011 Number	Total 2011 Number	Ingredients & Flavours 2010 Number	Consumer Foods 2010 Number	Total 2010 Number
EMEA	5,078	10,528	15,606	4,534	10,077	14,611
Americas	5,977	–	5,977	5,507	–	5,507
Asia Pacific	2,462	–	2,462	2,350	–	2,350
	13,517	10,528	24,045	12,391	10,077	22,468

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

	Ingredients & Flavours 2011 €'m	Consumer Foods 2011 €'m	Total 2011 €'m	Ingredients & Flavours 2010 €'m	Consumer Foods 2010 €'m	Total 2010 €'m
EMEA	259.1	352.3	611.4	226.6	347.4	574.0
Americas	285.4	–	285.4	267.3	–	267.3
Asia Pacific	79.0	–	79.0	67.3	–	67.3
	623.5	352.3	975.8	561.2	347.4	908.6

Social welfare costs of **€91.5m** (2010: €84.7m) as well as the Long Term Incentive Plan expense of **€2.0m** (2010: €1.3m) are included in payroll costs. Pension costs included in payroll costs are disclosed in note 25. Included in payroll costs is **€9.7m** (2010: €nil) which has been capitalised.

5. Non-trading items

	Notes	2011 €'m	2010 €'m
(Loss)/profit on disposal of non-current assets		(8.4)	0.2
Profit/(loss) on acquisition/disposal of businesses		17.3	(1.0)
Acquisition related costs		(10.7)	–
		(1.8)	(0.8)
Tax	7	1.9	0.1
		0.1	(0.7)

Loss on disposal of non-current assets

This loss relates primarily to the disposal of property, plant & equipment in the US, UK and Brazil.

Profit/(loss) on acquisition/disposal of businesses

The Group acquired the controlling interest of previously held investments and as required under IFRS 3 (2008) 'Business Combinations', these were fair valued with the resulting gain of **€22.5m** taken to the Consolidated Income Statement. This has been partially offset by losses on the sale of the Dawn Dairies business in Co. Limerick, Ireland and other non-core businesses in the US and Ireland.

Acquisition related costs

Acquisition related costs include transaction expenses incurred in completing the 2011 acquisitions such as professional service fees and due diligence. In addition, the Group incurred costs in integrating the acquisitions into the Group's operations and structure.

2010 Non-trading items

The loss on disposal of businesses relates primarily to the sale of the non-core Kerry Spring business in Co. Kerry, Ireland and the sale of the Dawn Dairies business in Co. Galway, Ireland.

6. Finance income and costs

	2011 €'m	2010 €'m
Interest income on deposits	(0.9)	(0.9)
Interest payable	47.5	61.4
Finance costs capitalised	(0.6)	–
	46.0	60.5

The finance costs capitalised in 2011 relate to the borrowing costs incurred on the development of computer software for the Kerryconnect programme.

7. Income taxes

	Notes	2011 €'m	2010 €'m
Recognition in the Consolidated Income Statement			
Current tax expense		58.0	67.1
Adjustments in respect of prior years		0.2	(2.4)
		58.2	64.7
Deferred tax relating to the origination and reversal of temporary differences	16	14.5	3.9
Income tax expense		72.7	68.6

	Notes	2011 €'m	2010 €'m
Included in the above are the following tax (credits)/charges on non-trading items:			
Current tax		(1.6)	0.1
Deferred tax		(0.3)	(0.2)
	5	(1.9)	(0.1)

The applicable notional tax rate of **17.5%** (2010: 23.9%) 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:

	2011 €'m	2010 €'m
Profit before taxation	433.4	392.8
Applicable notional tax	75.8	93.8
Adjustments to current tax and deferred tax in respect of prior years	(1.4)	(0.1)
Income taxed at rates other than standard tax rates	0.8	(1.4)
Withholding taxes and other local taxes	1.2	2.8
Income not subject to tax	(12.9)	(7.6)
Non-recognition/(utilisation) of unprovided deferred tax assets	8.6	(19.3)
Other adjusting items	0.6	0.4
Income tax expense	72.7	68.6

An increase in the Group's applicable tax rate of 1% would reduce profit after tax by €4.3m (2010: €3.9m).

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 profit and loss account 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 **€27.4m** (2010: €2.2m).

9. Earnings per A ordinary share

	Notes	EPS cent	2011 €'m	EPS* cent	2010* €'m
Basic earnings per share					
Profit after taxation and attributable to equity shareholders		205.5	360.7	185.0	324.2
Brand related intangible asset amortisation	*12*	7.9	13.9	6.7	11.8
Non-trading items (net of related tax)	5	–	(0.1)	0.4	0.7
Adjusted earnings		213.4	374.5	192.1	336.7
Diluted earnings per share					
Profit after taxation and attributable to equity shareholders		205.4	360.7	184.7	324.2
Adjusted earnings		213.3	374.5	191.8	336.7

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.

*In previous years the Group had calculated adjusted earnings per share after adding back all intangible asset amortisation including computer software amortisation. However from 2011, with 2010 re-presented, computer software amortisation is being treated as a cost in arriving at adjusted earnings per share. This is due to the significance of the Kerryconnect programme the Group is currently undertaking.

Number of shares	*Notes*	2011 m's	2010 m's
Basic weighted average number of shares		175.5	175.3
Impact of share options outstanding		0.1	0.2
Diluted weighted average number of shares		175.6	175.5
Actual number of shares in issue as at 31 December	*26*	175.5	175.5

10. Dividends

	2011 €'m	2010 €'m
Group and Company:		
Amounts recognised as distributions to equity shareholders in the year		
Final 2010 dividend of **20.00 cent** per A ordinary share paid 13 May 2011 (Final 2009 dividend of 17.30 cent per A ordinary share paid 14 May 2010)	35.2	30.3
Interim 2011 dividend of **9.80 cent** per A ordinary share paid 11 November 2011 (Interim 2010 dividend of 8.80 cent per A ordinary share paid 12 November 2010)	17.2	15.4
	52.4	45.7

Since the year end the Board has proposed a final 2011 dividend of 22.40 cent per A ordinary share. The payment date for the final dividend will be 11 May 2012 to shareholders registered on the record date as at 13 April 2012. These consolidated financial statements do not reflect this dividend.

11. Property, plant and equipment

	Notes	Land and Buildings €'m	Plant, Machinery and Equipment €'m	Construction in Progress €'m	Motor Vehicles €'m	Total €'m
Group:						
Cost						
At 1 January 2010		747.8	1,361.3	14.9	37.7	2,161.7
Businesses acquired		12.5	38.4	0.3	0.6	51.8
Additions		27.4	77.4	46.4	1.2	152.4
Purchase adjustments		(0.1)	0.1	–	–	–
Transfer from construction in progress		0.5	14.9	(15.4)	–	–
Disposals/businesses disposed		(12.5)	(63.0)	–	(7.9)	(83.4)
Transferred to held for sale		(1.6)	(0.6)	–	–	(2.2)
Exchange translation adjustment	29	33.8	60.7	1.2	0.7	96.4
At 31 December 2010		807.8	1,489.2	47.4	32.3	2,376.7
Businesses acquired	30	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	29	11.8	18.8	1.2	(0.2)	31.6
At 31 December 2011		**867.8**	**1,545.3**	**59.3**	**27.7**	**2,500.1**
Accumulated depreciation and impairment						
At 1 January 2010		237.3	897.3	–	33.4	1,168.0
Businesses acquired		3.5	13.8	–	0.4	17.7
Charge during year		24.9	84.5	–	1.8	111.2
Disposals/businesses disposed		(10.1)	(59.8)	–	(7.2)	(77.1)
Impairments		2.5	5.4	–	–	7.9
Transferred to held for sale		(0.3)	(0.2)	–	–	(0.5)
Exchange translation adjustment	29	8.2	33.7	–	0.4	42.3
At 31 December 2010		266.0	974.7	–	28.8	1,269.5
Charge during year	3	21.7	80.2	–	1.4	103.3
Disposals/businesses disposed		(7.1)	(85.8)	–	(5.2)	(98.1)
Exchange translation adjustment	29	3.8	13.0	–	(0.1)	16.7
At 31 December 2011		**284.4**	**982.1**	–	**24.9**	**1,291.4**
Carrying value						
At 31 December 2010		541.8	514.5	47.4	3.5	1,107.2
At 31 December 2011		**583.4**	**563.2**	**59.3**	**2.8**	**1,208.7**

There was no impairment of property, plant and equipment in 2011. During 2010, the Group recognised impairments on property, plant and equipment following a review of the Group's asset portfolio and the systemisation of the fixed asset register arising from the Kerryconnect programme.

11. Property, plant and equipment (continued)

	Land and Buildings Total €'m
Company:	
Cost	
At 1 January 2010	4.9
Disposals	(0.1)
At 31 December 2010 and 2011	**4.8**
Accumulated depreciation	
At 1 January 2010	3.0
Charge during year	0.2
At 31 December 2010	3.2
Charge during year	**0.2**
At 31 December 2011	**3.4**
Carrying value	
At 31 December 2010	1.6
At 31 December 2011	**1.4**

12. Intangible assets

	Notes	Goodwill €'m	Brand Related Intangibles €'m	Computer Software €'m	Total €'m
Group:					
Cost					
At 1 January 2010		1,378.4	532.9	48.1	1,959.4
Businesses acquired		78.5	31.5	–	110.0
Additions		–	–	1.8	1.8
Purchase adjustments		5.6	(12.0)	–	(6.4)
Disposals/businesses disposed		(0.2)	–	(0.3)	(0.5)
Exchange translation adjustment	29	50.1	12.4	0.7	63.2
At 31 December 2010		1,512.4	564.8	50.3	2,127.5
Businesses acquired	30	**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	29	**21.6**	**6.7**	**0.3**	**28.6**
At 31 December 2011		**1,647.0**	**718.1**	**80.6**	**2,445.7**
Accumulated amortisation and impairment					
At 1 January 2010		–	71.8	15.9	87.7
Charge during year		–	11.8	4.3	16.1
Purchase adjustments		–	(0.1)	–	(0.1)
Impairments		–	–	20.9	20.9
Disposals/businesses disposed		–	–	(0.2)	(0.2)
Exchange translation adjustment	29	–	3.7	0.5	4.2
At 31 December 2010		–	87.2	41.4	128.6
Charge during year	3	**–**	**13.9**	**5.4**	**19.3**
Disposals/businesses disposed		**–**	**(0.3)**	**–**	**(0.3)**
Exchange translation adjustment	29	**–**	**3.1**	**0.4**	**3.5**
At 31 December 2011		**–**	**103.9**	**47.2**	**151.1**
Carrying value					
At 31 December 2010		1,512.4	477.6	8.9	1,998.9
At 31 December 2011		**1,647.0**	**614.2**	**33.4**	**2,294.6**

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 **€435.0m** (2010: €359.8m) 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 2011 €'m	Goodwill 2010 €'m	Indefinite Life Intangibles 2011 €'m	Indefinite Life Intangibles 2010 €'m
Ingredients & Flavours				
EMEA	451.2	405.3	99.8	96.4
Americas	657.6	606.1	180.3	150.8
Asia Pacific	118.5	88.4	52.5	10.6
Consumer Foods				
EMEA	419.7	412.6	102.4	102.0
	1,647.0	1,512.4	435.0	359.8

Some intangibles, which are centrally held and legally owned by Kerry Group Services International Limited, 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 2011 or 2010.

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 in addition to expected changes to selling prices and direct costs during the year.

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

	Discount Rates 2011	Discount Rates 2010	Growth Rates 2011	Growth Rates 2010
Ingredients & Flavours				
EMEA	5% – 8%	6% – 9%	0% – 4%	0% – 3%
Americas	5% – 12%	6% – 9%	3% – 5%	3% – 7%
Asia Pacific	5% – 9%	6% – 10%	2% – 7%	3% – 8%
Consumer Foods				
EMEA	5%	6%	0% – 2%	0% – 2%

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 such as South America, while a lower rate is applied to more stable markets such as the USA. A 1% increase in the discount rate would not have resulted in an impairment charge in 2011 or 2010.

Growth rates are based on forecasts in line with long-term industry growth rates. Generally, lower growth rates are used in mature markets such as Ireland while higher growth rates are used in emerging markets such as Asian countries. A 1% decrease in the growth rate would not have resulted in an impairment charge in 2011 or 2010.

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

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 2011 or 2010.

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.

There were no intangible asset impairments in 2011. In 2010, the impairment of computer software of €20.9m relates to ERP systems previously capitalised, for which the future benefit was no longer certain, due to ongoing developments in the organisation. This cost was included in the depreciation and impairment line in the Consolidated Income Statement.

13. Financial asset investments

	Available-for-sale Investments €'m	Other Investments €'m	Total €'m
Group:			
At 1 January 2010	11.5	–	11.5
Impairments	(3.3)	–	(3.3)
At 31 December 2010	8.2	–	8.2
Transferred from receivables	–	11.1	11.1
At 31 December 2011	**8.2**	**11.1**	**19.3**

Available-for-sale investments

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

Quoted market prices are used to determine the fair value of listed shares where there is an active market. A 'sum-of-the-parts' valuation model is used to determine the fair value of shares where there is not an active market. A 10% decrease in the valuation of these shares in 2011 would have resulted in a decrease in the carrying value of the shares of €0.8m (2010: €0.8m).

Shares that were valued using a market price in 2009 were valued using a 'sum-of-the parts' valuation methodology in 2010 as the market they were trading on was no longer deemed to be an active market. This change in estimation of fair value occurred due to the low level of trading in the market as well as other external factors that indicated that the market was no longer a robust measure of fair value for financial accounting purposes.

In 2010, this resulted in a decrease in the fair value of the asset and as this fair value was lower than the original cost of these shares, it resulted in the release of €7.4m from the available-for-sale reserve and an impairment of €3.3m from the asset value.

13. Financial asset investments (continued)

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

	2011 €'m	2010 €'m
Company:		
At beginning and end of year – at cost	638.7	638.7

15. Inventories

	2011 €'m	2010 €'m
Group:		
Raw materials and consumables	288.7	237.9
Finished goods and goods for resale	349.7	274.0
Expense inventories	20.1	19.7
	658.5	531.6

Write-downs of inventories recognised as an expense approximates to 1% (2010: 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 Losses and Credits €'m	Retirement Benefits Obligation €'m	Short Term Temporary Differences and Other Differences €'m	Total €'m
At 1 January 2010		76.4	151.8	(5.6)	(57.4)	(17.8)	147.4
Consolidated Income Statement movement		(1.6)	4.6	1.1	10.1	(10.3)	3.9
Recognised in shareholders' equity during year		–	–	–	(5.6)	3.6	(2.0)
Related to businesses acquired/disposed		2.0	2.5	(0.3)	(0.1)	(1.7)	2.4
Exchange translation adjustment	29	7.5	4.3	(0.8)	(2.7)	(2.5)	5.8
At 31 December 2010		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	29	**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**

The short term temporary differences and other temporary differences recognised in shareholders' equity comprises fair value movements on cashflow hedges of **(€2.0m)** (2010: €2.9m) and an exchange difference on translation of foreign operations of **(€1.5m)** (2010: €0.7m).

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

	2011 €'m	2010 €'m
Deferred tax assets	**(10.2)**	(8.9)
Deferred tax liabilities	**173.0**	166.4
	162.8	157.5

The total tax value of deductible temporary differences which have not been recognised is **€99.7m** (2010: €82.2m) consisting mainly of tax losses forward. Unrecognised tax losses with a value of **€5.6m** (2010: €6.8m) expire within 5 years, **€3.9m** (2010: €8.7m) expire within 9 years and **€70.9m** (2010: €48.2m) expire within 20 years. All other losses may be carried forward indefinitely. In 2011 **€8.6m** of deferred tax assets were not recognised, in 2010 €19.3m of unrecognised deferred tax assets were utilised.

16. Deferred tax assets and liabilities (continued)

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 €7.8m (2010: €7.6m).

17. Assets classified as held for sale

	2011 €'m	2010 €'m
Group:		
Property, plant and equipment	5.6	5.4

In 2011 and 2010, the Group has classified certain assets in the Kerry Ingredients & Flavours division in the USA as held for sale. These non-core assets resulted from restructuring programmes in prior years. Some of these assets were sold in 2011 with the disposal of the remaining assets expected to be completed in 2012. These have taken longer to sell than originally expected due to the decline of the US property market. The proceeds on the disposal of these assets is not expected to be less than their carrying amount.

18. Trade and other receivables

	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Trade receivables	679.5	576.9	–	–
Less impairment allowance for doubtful trade receivables	(24.5)	(24.8)	–	–
Trade receivables due within 1 year	655.0	552.1	–	–
Other receivables and prepayments	35.4	32.3	–	10.0
VAT receivable	17.8	22.5	–	–
Receivables due after 1 year	1.6	11.8	–	–
	709.8	618.7	–	10.0

All receivable balances are due within 1 year except for **€1.6m** (2010: €11.8m) outlined above. All receivable balances are within terms with the exception of trade receivables which is detailed on page 103.

The Company receivable balance in 2010 of €10.0m consisted of a dividend receivable from its subsidiaries.

18. Trade and other receivables (continued)

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.

	2011 €'m	2010 €'m
Within terms	528.1	428.9
Past due not more than 1 month	98.9	98.2
Past due more than 1 month but less than 2 months	16.4	16.0
Past due more than 2 months but less than 3 months	6.8	4.4
Past due more than 3 months	4.8	4.6
Trade receivables (net)	655.0	552.1

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

	2011 €'m	2010 €'m
At beginning of year	24.8	27.0
Charged to the Consolidated Income Statement	5.4	6.6
Utilised or reversed during the year	(5.7)	(10.7)
Exchange translation adjustment	–	1.9
At end of year	24.5	24.8

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, based on 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 2011 or 2010.

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.

19. Trade and other payables

	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Trade payables	981.2	835.8	–	–
Other payables and accruals	137.0	160.2	0.4	0.5
Deferred payments on acquisition of subsidiaries	7.8	11.3	5.9	6.0
PAYE	7.9	7.7	–	–
Social security costs	3.0	2.9	–	–
Amounts due to Group companies	–	–	6.6	16.8
	1,136.9	1,017.9	12.9	23.3

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 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Capital grants					
At beginning of year		24.2	16.6	0.2	0.2
Businesses acquired		–	5.3	–	–
Grants received		1.9	4.4	–	–
Amortised during year	3	(2.5)	(2.3)	–	–
Exchange translation adjustment	29	0.1	0.2	–	–
At end of year		23.7	24.2	0.2	0.2
Analysed as:					
Current liabilities		2.3	2.5	–	–
Non-current liabilities		21.4	21.7	0.2	0.2
		23.7	24.2	0.2	0.2

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

21. Other non-current liabilities

	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Other payables and accruals	61.4	48.3	–	–
Deferred payments on acquisition of subsidiaries	1.7	7.0	–	–
Amounts due to Group companies	–	–	135.2	112.6
	63.1	55.3	135.2	112.6

All of the above balances are due within 1 to 5 years except for **€9.8m** (2010: €0.1m) 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 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
Group:						
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 and cash equivalents	23	237.9	–	–	–	237.9
Total financial assets		947.7	11.9	84.6	8.2	1,052.4
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)
Total financial liabilities		(2,702.8)	(44.2)	(16.0)	–	(2,763.0)
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)
Total net financial (liabilities)/assets		(1,755.1)	(32.3)	68.6	8.2	(1,710.6)

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 and cash equivalents	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)
Total net debt	(1,328.0)	(33.0)	73.3	–	(1,287.7)

22. Analysis of financial instruments by category (continued)

	Notes	Loans & Receivables & Other Financial Liabilities at Amortised Cost 2010 €'m	Liabilities at Fair Value through Profit or Loss 2010 €'m	Derivatives Designated as Hedging Instruments 2010 €'m	Available-for-sale Investments 2010 €'m	Total 2010 €'m
Group:						
Financial asset investments	13	–	–	–	8.2	8.2
Forward foreign exchange contracts	23	–	–	4.7	–	4.7
Interest rate swaps	23	–	–	42.7	–	42.7
Trade and other receivables	18	618.7	–	–	–	618.7
Cash and cash equivalents	23	159.3	–	–	–	159.3
Total financial assets		778.0	–	47.4	8.2	833.6
Current assets		778.0	–	4.7	–	782.7
Non-current assets		–	–	42.7	8.2	50.9
		778.0	–	47.4	8.2	833.6
Borrowings and overdrafts	23	(1,301.7)	(2.8)	–	–	(1,304.5)
Forward foreign exchange contracts	23	–	(2.6)	(0.2)	–	(2.8)
Interest rate swaps	23	–	–	(9.4)	–	(9.4)
Trade and other payables	19	(1,017.9)	–	–	–	(1,017.9)
Total financial liabilities		(2,319.6)	(5.4)	(9.6)	–	(2,334.6)
Current liabilities		(1,199.2)	(2.6)	(9.6)	–	(1,211.4)
Non-current liabilities		(1,120.4)	(2.8)	–	–	(1,123.2)
		(2,319.6)	(5.4)	(9.6)	–	(2,334.6)
Total net financial (liabilities)/assets		(1,541.6)	(5.4)	37.8	8.2	(1,501.0)

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

Analysis of total net debt by category						
Interest rate swaps		–	–	33.3	–	33.3
Cash and cash equivalents		159.3	–	–	–	159.3
		159.3	–	33.3	–	192.6
Bank overdrafts		(7.2)	–	–	–	(7.2)
Bank loans		(436.1)	–	–	–	(436.1)
Senior notes		(858.4)	(2.8)	–	–	(861.2)
Borrowings and overdrafts		(1,301.7)	(2.8)	–	–	(1,304.5)
Total net debt		(1,142.4)	(2.8)	33.3	–	(1,111.9)

22. Analysis of financial instruments by category (continued)

In 2011 and 2010 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. There was no impact on the Consolidated Income Statement as the hedge accounting for the cross currency swaps resulted in the recognition of a gain of €51.5m (2010: €37.0m), directly offset by a charge of €51.5m (2010: €37.0m) resulting from the translation of the underlying hedged foreign currency borrowings at the balance sheet rates.

The adjustment to senior notes classified under assets/(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	**2011 €'m**	2010 €'m
Company:			
Financial asset investments			
Investments in subsidiaries at cost	14	**638.7**	638.7
Loans & receivables & other financial assets at amortised cost			
Trade and other receivables	18	**–**	10.0
Cash and cash equivalents		**–**	0.1
Total financial assets		**638.7**	648.8
Current assets		**–**	10.1
Non-current assets		**638.7**	638.7
		638.7	648.8
Financial liabilities at amortised cost			
Borrowings and overdrafts		**(1.1)**	(0.6)
Trade and other payables	19	**(12.9)**	(23.3)
Total financial liabilities		**(14.0)**	(23.9)
Current liabilities		**(14.0)**	(23.9)
Total net financial assets		**624.7**	624.9

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 financial liabilities, cash and cash equivalents and equity attributable to equity holders of the Parent Company, 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.

This 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:

	2011 Times	2010 Times
Net debt: EBITDA	2.0	1.8
EBITDA: Net interest	13.5	10.1

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 2011	Sterling 2011	US Dollar 2011	Other 2011	Euro 2010	Sterling 2010	US Dollar 2010	Other 2010
Functional currency of Group operation								
Euro	–	(14.4)	36.2	0.3	–	5.4	(11.1)	1.2
Sterling	(0.6)	–	1.5	(0.6)	1.2	–	2.5	(0.8)
US Dollar	–	–	–	–	0.1	–	–	–
Other	(2.9)	2.0	10.1	2.1	(3.6)	0.9	9.5	0.6
Total	(3.5)	(12.4)	47.8	1.8	(2.3)	6.3	0.9	1.0

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 2011 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 2011, 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 €1.7m (2010: €0.3m).

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 2011 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 €7.0m (2010: €9.0m) and €13.7m (2010: €14.5m) respectively.

23. Financial instruments (continued)

(i) Foreign exchange rate risk management (continued)

Forward foreign exchange contracts – cash flow

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	
	2011 €'m	2010 €'m	**2011 €'m**	2010 €'m
Forward foreign exchange contracts	**(4.7)**	4.5	**145.0**	126.0

At 31 December 2011 a liability of **€1.3m** (2010: an asset of €3.6m) of the fair value is included in the hedging reserve, which will primarily be released to the Consolidated Income Statement within **9 months** (2010: 9 months) of the balance sheet date. All forward contracts relate to sales revenue made in their respective currencies.

During 2011, a gain of **€2.5m** (2010: a charge of €2.6m) has been taken to foreign exchange gains/(losses) in the Consolidated Income Statement in respect of forward foreign exchange contracts that matured during the year. There were no transactions during 2011 or 2010 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 2010 were released to the Consolidated Income Statement in 2011 as follows:

- within 3 months: **€1.2m** (2010: €0.1m);
- within 3 to 6 months: **€1.8m** (2010: €nil);
- within 6 to 9 months: **€0.6m** (2010: €nil).

At 31 December 2011 and 2010 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. In addition, as at 31 December 2011 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 Liability		Notional Principal	
	2011 €'m	2010 €'m	**2011 €'m**	2010 €'m
Forward foreign exchange contracts	**(10.4)**	(2.6)	**343.0**	94.0

The fair value charge of **€10.4m** (2010: €2.6m) is directly offset by a gain of **€7.6m** (2010: €2.6m) on the retranslation to balance sheet rates on foreign currency receivables from within Group lending. The balance relates to other economic hedges as outlined above.

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	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)	–
At 31 December 2011	**1,328.0**	**–**	**1,328.0**	**632.6**	**695.4**
Euro	133.3	373.1	506.4	437.8	68.6
Sterling	60.8	–	60.8	60.8	–
US Dollar	907.4	(373.1)	534.3	86.5	447.8
Others	40.9	–	40.9	40.9	–
At 31 December 2010	1,142.4	–	1,142.4	626.0	516.4

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 €51.5m (2010: €37.0m) which is directly offset by a gain of €51.5m (2010: €37.0m) on the application of hedge accounting on the cross currency swaps as detailed below.

The weighted average interest rate for fixed borrowings is **3.01%** (2010: 3.36%) and the weighted average period for which the rate is fixed is **3.6 years** (2010: 4.3 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 **48%** (2010: 55%) 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 2012 holding all other items constant, the net finance charge of the Group before taxation could increase by 11% (2010: 13%).

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.

23. Financial instruments (continued)

(ii) Interest rate risk management (continued)

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	
	2011 %	2010 %	2011 €'m	2010 €'m	2011 €'m	2010 €'m
Interest rate swap contracts						
less than 1 year	–	5.44	–	(9.4)	–	373.1
1 – 2 years	1.12	–	(0.6)	–	155.0	–
2 – 5 years	1.91	1.49	(10.1)	3.5	391.6	373.1
> 5 years	4.38	4.38	9.0	6.2	71.3	68.7
Total			(1.7)	0.3	617.9	814.9

Of the fair value liability of **€1.7m** at 31 December 2011 (2010: asset of €0.3m), a gain of **€9.5m** (2010: €6.8m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange gain of **€2.7m** (2010: €6.8m) has been recognised in the Consolidated Income Statement and directly offsets the loss incurred on the retranslation of the underlying hedged foreign currency borrowings. At 31 December 2011 a liability of **€11.2m** (2010: €6.5m) has been recognised in the hedging reserve and will be released to the Consolidated Income Statement over the life of the interest rate swaps.

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 2011 and 2010 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.

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	
	2011 %	2010 %	2011 €'m	2010 €'m	2011 €'m	2010 €'m
Interest rate swap contracts						
> 5 years	4.91	4.91	75.0	33.0	316.3	304.5

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 **€75.0m** (2010: €33.0m) at 31 December 2011, a gain of **€42.0m** (2010: €30.2m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange gain of **€11.8m** (2010: €30.2m) has been recognised in the Consolidated Income Statement to directly offset the loss incurred on the retranslation of the underlying hedged foreign currency borrowings. In addition an amount of **€33.0m** (2010: €2.8m) 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.

23. Financial instruments (continued)

(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 2011 and 2010.

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 2011, the Group had undrawn committed bank facilities of €355.0m (2010: €455.0m), and a portfolio of undrawn standby facilities amounting to €205.0m (2010: €200.0m). The undrawn committed facilities comprise primarily of a revolving credit facility maturing between 4 – 5 years (2010: under 2 years).

The following table details the Group's remaining contractual maturity of its non-derivative financial instruments excluding trade and other receivables and trade and other payables. 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 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
At 31 December 2011	102.7	229.9	998.0	537.2	1,867.8
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 and cash equivalents	(237.9)	–	–	–	(237.9)
Total net debt as at 31 December 2011	(198.9)	179.0	893.5	414.1	1,287.7

23. Financial instruments (continued)

(iii) Liquidity risk management (continued)

	On demand & up to 1 year €'m	Up to 2 years €'m	2 – 5 years €'m	> 5 years €'m	Total €'m
Bank overdrafts	7.2	–	–	–	7.2
Bank loans	174.1	261.2	0.5	0.3	436.1
Senior notes	–	–	410.6	447.8	858.4
Borrowings and overdrafts	181.3	261.2	411.1	448.1	1,301.7
Deferred payments on acquisition of subsidiaries	11.3	0.2	6.7	0.1	18.3
	192.6	261.4	417.8	448.2	1,320.0
Interest commitments	51.0	45.8	95.0	90.6	282.4
At 31 December 2010	243.6	307.2	512.8	538.8	1,602.4
Reconciliation to net debt position:					
Borrowings and overdrafts	181.3	261.2	411.1	448.1	1,301.7
Interest rate swaps	9.4	–	(3.5)	(39.2)	(33.3)
Senior notes – fair value adjustment	–	–	–	2.8	2.8
Cash and cash equivalents	(159.3)	–	–	–	(159.3)
Total net debt as at 31 December 2010	31.4	261.2	407.6	411.7	1,111.9

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	**23.5**	**22.9**	**60.5**	**123.4**	**230.3**
Interest rate swaps outflow	**(22.3)**	**(19.5)**	**(41.5)**	**(43.7)**	**(127.0)**
Interest rate swaps inflow	**1.2**	**3.4**	**19.0**	**79.7**	**103.3**
Forward foreign exchange contracts outflow	**(15.1)**	**–**	**–**	**–**	**(15.1)**
At 31 December 2011	**(13.9)**	**3.4**	**19.0**	**79.7**	**88.2**
Interest rate swaps inflow	19.6	21.0	63.0	124.2	227.8
Interest rate swaps outflow	(21.9)	(18.0)	(49.0)	(70.1)	(159.0)
Interest rate swaps (outflow)/inflow	(2.3)	3.0	14.0	54.1	68.8
Forward foreign exchange contracts inflow	1.9	–	–	–	1.9
At 31 December 2010	(0.4)	3.0	14.0	54.1	70.7

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 €51.5m (2010: €37.0m).

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 4 – 5 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 2011 and 2010.

The following table details the Group's non-derivative financial assets all of which are available on demand and have no fixed interest return:

	2011 €'m	2010 €'m
Cash and cash equivalents	**237.9**	159.3
Financial asset investments	**19.3**	8.2
	257.2	167.5

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 2011 and 2010 all cash, short-term deposits and other liquid investments had a maturity of less than 3 months.

Credit risk is actively managed across the portfolio of institutions by ensuring that material surplus funds are placed with counter-parties that are either covered by Government guarantee schemes or have a strong investment grade credit rating.

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.

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 2011 €'m	Fair Value 2011 €'m	Carrying Amount 2010 €'m	Fair Value 2010 €'m
Financial assets				
Trade and other receivables	709.8	709.8	618.7	618.7
Cash and cash equivalents	237.9	237.9	159.3	159.3
Financial liabilities				
Bank overdrafts	(0.9)	(0.9)	(7.2)	(7.2)
Bank loans	(675.6)	(675.6)	(436.1)	(436.1)
Senior notes	(889.4)	(951.1)	(858.4)	(859.0)
Trade and other payables	(1,136.9)	(1,136.9)	(1,017.9)	(1,017.9)
	(1,755.1)	(1,816.8)	(1,541.6)	(1,542.2)

(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 2011 €'m	Level 2 2011 €'m	Level 3 2011 €'m	Level 1 2010 €'m	Level 2 2010 €'m	Level 3 2010 €'m
Financial assets						
Interest rate swaps	–	84.0	–	–	42.7	–
Forward foreign exchange contracts	–	1.4	–	–	4.7	–
Financial asset investments	11.1	–	8.2	–	–	8.2
Financial liabilities						
Forward foreign exchange contracts	–	(16.5)	–	–	(2.8)	–
Interest rate swaps	–	(10.7)	–	–	(9.4)	–

23. Financial instruments (continued)

***(vi) Fair value of financial instruments** (continued)*

Transfers between Level 1 and 3

In 2010, the available-for-sale investments were transferred from Level 1 to Level 3 as the market upon which the shares were previously valued was no longer deemed to be a sufficiently robust measure of fair value for financial reporting purposes. Therefore, the shares are now valued using a 'sum-of-the-parts' valuation methodology. The methodology uses observable inputs where possible being either quoted market prices or company disclosed information, in some instances observable data is not specific to certain parts of the valuation and judgement is used to apply a comparable measure, hence it is on balance deemed to be Level 3.

The following table provides a reconciliation of the movements in the available-for-sale asset in Level 3:

	2011 €'m	2010 €'m
Group:		
Available-for-sale investments at fair value		
At beginning of year	8.2	–
Transfer from Level 1	–	11.5
Total losses for the year recognised in the Consolidated Income Statement	–	(3.3)
At end of year	8.2	8.2

24. Provisions

	Notes	Insurance €'m	Non-Trading Items €'m	Other €'m	Total €'m
Group:					
At 1 January 2010		26.9	35.5	10.7	73.1
Provided and discounting released during the year		0.4	–	0.3	0.7
Utilised during the year		–	(26.4)	(0.1)	(26.5)
Transferred from payables and accruals		0.6	–	–	0.6
Exchange translation adjustment	29	0.8	–	0.3	1.1
At 31 December 2010		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	29	0.7	–	0.6	1.3
At 31 December 2011		54.4	4.8	–	59.2

	2011 €'m	2010 €'m
Analysed as:		
Current liabilities	26.1	18.3
Non-current liabilities	33.1	30.7
	59.2	49.0

24. Provisions (continued)

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 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 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 related to non-trading items incurred in 2009, the majority of which related to redundancy and contract compensation owing to people who are in the process of transitioning out of the business. The balance on this provision relates to outstanding contract compensation and costs relating to onerous leases that should expire within 4 years.

Other

These provisions relate 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).

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	**Pension 2011 €'m**	**Post-Retirement Medical 2011 €'m**	Pension 2010 €'m	Post-Retirement Medical 2010 €'m
Current service cost relating to defined contribution schemes		15.9	–	17.8	–
Current service cost relating to defined benefit schemes		15.5	–	14.7	0.2
Total current service cost		31.4	–	32.5	0.2
Past service cost/(gain)		1.2	(1.4)	0.3	(5.2)
Expected return on pension schemes' assets		(46.4)	–	(42.2)	–
Interest on schemes' liabilities		50.8	0.2	47.7	0.5
Curtailment gains		(1.0)	–	(1.3)	–
Settlement losses		–	–	0.3	–
Included in staff costs	*4*	36.0	(1.2)	37.3	(4.5)

In 2011 and 2010, the net past service gains mostly relate to adjustments to benefits under the Group's defined benefit post-retirement medical plans.

25. Retirement benefits obligation (continued)

(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 USA 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 2011 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.

(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:

	2011 %	2010 %
Inflation assumption	**1.90 – 3.00**	1.90 – 3.40
Rate of increase in salaries	**2.40 – 5.00**	2.90 – 5.00
Rate of increase for pensions in payment and deferred pensions	**1.90 – 3.00**	1.90 – 3.40
Rate used to discount schemes' liabilities	**4.00 – 5.20**	5.25 – 5.75

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:

	2011 Years	2010 Years
Male – retiring now	**19 – 22**	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

25. Retirement benefits obligation (continued)

(i) Financial and demographic assumptions (continued)

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:

	2011 %	2010 %
Equities	**7.00 – 8.50**	7.10 – 7.90
Bonds	**2.50 – 6.00**	3.30 – 5.00
Property	**6.00 – 7.00**	7.10
Other	**0.50 – 8.00**	0.50 – 8.20
Overall expected return on pension schemes' assets	**3.00 – 7.60**	4.00 – 7.20

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 2011 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 4.75%
Inflation rate	Increase/decrease of 0.25%	Increase/decrease of 3.60%
Mortality	Increase/decrease in life expectancy of 1 year	Increase/decrease of 2.45%

25. Retirement benefits obligation (continued)

(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:

	Pension 2011 €'m	Post-Retirement Medical 2011 €'m	Pension 2010 €'m	Post-Retirement Medical 2010 €'m
Actual return less expected return on pension schemes' assets	(62.9)	–	35.8	–
Experience gains on schemes' liabilities	6.6	–	2.5	0.4
Changes in assumptions underlying the present value of the schemes' liabilities	(55.8)	(0.4)	(68.4)	(0.6)
Actuarial losses recognised in the Consolidated Statement of Recognised Income and Expense	(112.1)	(0.4)	(30.1)	(0.2)
Cumulative amount of actuarial (losses)/gains recognised in the Consolidated Statement of Recognised Income and Expense	(322.9)	1.6	(210.8)	2.0
Actual return on schemes' assets for the year	(16.5)	N/A	78.0	N/A

Changes in assumptions

Within changes in assumptions underlying the present value of the schemes' liabilities, the decrease in discount rates across the main defined benefit schemes in the Group gave rise to the loss in 2011. In 2010, the loss arising from changes in assumptions underlying the present value of the schemes' liabilities primarily related to the decrease in discount rates across the main defined benefit schemes in the Group and the additional life expectancy improvements in Ireland, the UK and the Netherlands.

Pension levy

During the year, 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 2011 in respect of defined benefit members was €1.6m and was paid out of the pension funds in September 2011 reducing the overall expected return on pension scheme assets. For the defined contribution pension plan and additional voluntary contribution plan the cost of the levy has been paid by the members and shown as a deduction on their annual benefits statement. It is also the intention of the Trustees to pass the cost of the levy to the members of the defined benefit pension schemes through a deduction in benefits.

25. Retirement benefits obligation (continued)

(iii) Reconciliations for defined benefit plans

The movements in the defined benefit schemes' obligation during the year were:

	Pension 2011 €'m	Post–Retirement Medical 2011 €'m	Pension 2010 €'m	Post-Retirement Medical 2010 €'m
Present value of schemes' liabilities at beginning of year	(929.0)	(4.8)	(791.9)	(8.6)
Current service cost	(15.5)	–	(14.7)	(0.2)
Past service (cost)/gain	(2.4)	1.2	(0.1)	5.0
Interest on schemes' liabilities	(50.8)	(0.2)	(47.7)	(0.5)
Curtailment gains	1.0	–	1.3	–
Settlement losses	–	–	(0.3)	–
Contributions by employees	(10.5)	(0.2)	(9.1)	(0.2)
Benefits paid	32.0	0.6	26.4	0.6
Actuarial losses	(49.2)	(0.4)	(65.9)	(0.2)
Impact of businesses acquired/disposed	–	–	(4.0)	–
Other movements	–	–	(2.6)	–
Exchange translation adjustment	(16.6)	–	(20.4)	(0.7)
Present value of schemes' liabilities at end of year	**(1,041.0)**	**(3.8)**	(929.0)	(4.8)
Present value of schemes' liabilities at end of year that relates to:				
Wholly unfunded plans	(17.0)	(3.8)	(14.8)	(4.8)
Wholly or partly funded plans	(1,024.0)	–	(914.2)	–
	(1,041.0)	(3.8)	(929.0)	(4.8)

The movements in the schemes' assets during the year were:

	Pension 2011 €'m	Post-Retirement Medical 2011 €'m	Pension 2010 €'m	Post-Retirement Medical 2010 €'m
Fair value of assets in plans at beginning of year	737.3	–	604.4	–
Expected return on pension schemes' assets	46.4	–	42.2	–
Contributions by employer	52.6	0.4	55.1	0.4
Contributions by employees	10.5	0.2	9.1	0.2
Benefits paid	(32.0)	(0.6)	(26.4)	(0.6)
Actuarial (losses)/gains	(62.9)	–	35.8	–
Impact of businesses acquired/disposed	–	–	3.0	–
Exchange translation adjustment	12.3	–	14.1	–
Fair value of assets in plans at end of year	**764.2**	**–**	737.3	–

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 2011 €'m	Pension 2010 €'m
Equities	469.6	477.7
Bonds	250.0	215.6
Property	8.6	9.8
Other	36.0	34.2
Total fair value of pension schemes' assets	764.2	737.3

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 2011 and 2010 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 2011 or 2010.

During the year ending 31 December 2012, the Group expects to make contributions of approximately €54.0m 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 2011 €'m	Post-Retirement Medical 2011 €'m	Total 2011 €'m	Pension 2010 €'m	Post-Retirement Medical 2010 €'m	Total 2010 €'m
Present value of schemes' liabilities	(1,041.0)	(3.8)	(1,044.8)	(929.0)	(4.8)	(933.8)
Fair value of assets in plans	764.2	–	764.2	737.3	–	737.3
Net deficit	(276.8)	(3.8)	(280.6)	(191.7)	(4.8)	(196.5)
Unrecognised past service cost	3.1	–	3.1	2.0	(0.2)	1.8
Net recognised deficit in plans before deferred tax	(273.7)	(3.8)	(277.5)	(189.7)	(5.0)	(194.7)
Net related deferred tax asset	63.5	1.5	65.0	48.2	1.9	50.1
Net recognised deficit in plans after deferred tax	(210.2)	(2.3)	(212.5)	(141.5)	(3.1)	(144.6)

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:

	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m
Defined benefit pension schemes					
Present value of schemes' liabilities	(1,041.0)	(929.0)	(791.9)	(639.5)	(805.7)
Fair value of plans' assets	764.2	737.3	604.4	492.8	700.0
Net deficit in defined benefit pension plans	(276.8)	(191.7)	(187.5)	(146.7)	(105.7)
Experience gains/(losses) on schemes' liabilities	6.6	2.5	(5.6)	(16.5)	1.1
Experience (losses)/gains on schemes' assets	(62.9)	35.8	45.3	(215.2)	(41.3)
Defined benefit post-retirement medical schemes					
Present value of schemes' liabilities	(3.8)	(4.8)	(8.6)	(10.7)	(8.9)
Experience gains/(losses) on schemes' liabilities	–	0.4	1.0	(0.1)	2.0
Total defined benefit schemes					
Net recognised deficit in plans after deferred tax	(212.5)	(144.6)	(141.4)	(115.6)	(75.9)

26. Share capital

	2011 €'m	2010 €'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	21.8
Shares issued during year	–	0.1
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 2011 a total of **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.

During 2010 a total of 324,190 A ordinary shares were issued each with a nominal value of 12.50 cent, of which 180,790 were issued at €13.42 per share and a further 143,400 were issued at €8.00 per share to executives in the Group under the Executive Share Option Scheme. Also, 28,965 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 2011 was **175,534,812** (2010: 175,517,206).

Share buy back programme

At the 2011 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 2011 and 2010 no shares were purchased under this programme.

27. Share-based payments

(a) Long Term Incentive Plan

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 four occasions to date; July 2006, March 2009, March 2010 and March 2011. 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 2006 vested during 2009. The invitations from the 2009, 2010 and 2011 plans will potentially vest three years after invitation date if targets set are achieved.

Up to 50% of the shares 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 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:

	Number of Conditional Awards 2011	Number of Conditional Awards 2010
Outstanding at beginning of year	337,360	200,793
New conditional awards	**123,606**	136,567
Outstanding at end of year	**460,966**	337,360

	Notes	**Number of Share Options 2011**	Number of Share Options 2010
Share options arising under the LTIP			
Outstanding at beginning of year		97,186	126,151
Exercised	26	**(17,606)**	(28,965)
Outstanding and exercisable at end of year		**79,580**	97,186

Share options awarded under the LTIP scheme have an exercise price of 12.5 cent. There were no new share options awarded during the year. The remaining life for share options outstanding is **4.75** years (2010: 5.75 years). The weighted average share price at the date of exercise was **€27.11** (2010: €24.02).

27. Share-based payments (continued)

(a) Long Term Incentive Plan (continued)

The fair value per award and the assumptions used in the calculations are as follows:

	2011 Conditional Award at Grant Date	2010 Conditional Award at Grant Date	2009 Conditional Award at Grant Date	2006 Conditional Award at Grant Date
Share price at grant date	€26.50	€23.75	€14.30	€15.90
Exercise price per share	€0.125	€0.125	€0.125	€0.125
Expected volatility	32.6%	34.9%	31.1%	16.3%
Expected life	3 years	3 years	3 years	3 years
Risk free rate	1.9%	1.5%	2.0%	3.6%
Expected dividend yield	1.2%	1.0%	1.0%	1.0%
Expected forfeiture rate	5.0%	5.0%	5.0%	5.0%
Weighted average fair value at grant date	€21.28	€19.52	€12.16	€6.24
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 **€2.0m** (2010: €1.3m) 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.

(b) Old Executive Share Option Scheme

	Notes	**Number of Share Options 2011 m's**	**Weighted Average Exercise Price 2011 €**	Number of Share Options 2010 m's	Weighted Average Exercise Price 2010 €
Outstanding at beginning of year		–	–	349.7	11.20
Exercised	26	–	–	(324.2)	11.02
Forfeited		–	–	(25.5)	13.42
Outstanding and exercisable at end of year		–		–	

The latest exercisable date for options under the Executive Share Option Scheme was 1 October 2010. Options were equity settled and were exercisable at a price equal to the average quoted market price of the Company's shares at the date of grant.

28. Analysis of cash flow components

	Notes	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Profit before taxation		433.4	392.8	26.7	1.2
Intangible asset amortisation	12	19.3	16.1	–	–
Non-trading items	5	1.8	0.8	–	–
Finance income	6	(0.9)	(0.9)	–	–
Finance costs	6	46.9	61.4	–	–
Trading profit		500.5	470.2	26.7	1.2

	Notes	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Change in working capital					
Increase in inventories		(82.2)	(39.1)	–	–
(Increase)/decrease in trade and other receivables		(56.6)	(24.6)	10.0	(10.0)
Increase in trade and other payables		133.0	40.9	13.0	48.7
Long term incentive plan expense	27	2.0	1.3	2.0	1.3
		(3.8)	(21.5)	25.0	40.0

	Notes	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Analysis of net movement on bank borrowings					
Cash receipts		640.5	463.8	–	–
Cash payments		(407.5)	(665.6)	–	–
		233.0	(201.8)	–	–

	Notes	Group 2011 €'m	Group 2010 €'m	Company 2011 €'m	Company 2010 €'m
Analysis of cash and cash equivalents					
Cash at bank and in hand	22	237.9	159.3	–	0.1
Bank overdrafts	22	(0.9)	(7.2)	(1.1)	(0.6)
		237.0	152.1	(1.1)	(0.5)

29. Effect of exchange translation adjustments

	Notes	2011 €'m	2010 €'m
Group:			
Increase in assets			
Property, plant and equipment	11	14.9	54.1
Intangible assets	12	25.1	59.0
Inventories		7.2	25.0
Trade and other receivables		6.1	30.4
Cash and cash equivalents		1.4	8.6
Decrease in liabilities			
Trade and other payables		(9.1)	(43.6)
Tax liabilities		(0.7)	(2.2)
Financial instruments		(23.1)	(57.7)
Retirement benefits obligation		(4.4)	(7.1)
Other non-current liabilities		(0.1)	(0.6)
Deferred tax liabilities	16	(1.6)	(5.8)
Deferred income	20	(0.1)	(0.2)
Provisions	24	(1.3)	(1.1)
Retained earnings		(2.8)	(1.5)
		11.5	57.3

The above exchange translation adjustments arise primarily on the retranslation of the Group's opening net investment in its foreign currency subsidiaries.

30. Business combinations

During 2011, the Group completed 14 bolt on acquisitions, all of which are 100% owned by the Group.

		Acquirees' Carrying Amount before Combination			Fair Value Adjustments		
	Notes	Cargill Flavour Systems 2011 €'m	Other 2011 €'m	Total 2011 €'m	Revaluations 2011 €'m	Accounting Policy Alignment 2011 €'m	Total 2011 €'m
Recognised amounts of identifiable assets acquired and liabilities assumed:							
Non-current assets							
Property, plant and equipment	*11*	31.7	37.3	69.0	(0.7)	–	68.3
Brand related intangibles	*12*	–	–	–	123.2	–	123.2
Computer software	*12*	0.3	0.3	0.6	(0.2)	–	0.4
Current assets							
Inventories		25.3	17.1	42.4	–	(2.5)	39.9
Trade and other receivables		22.4	16.7	39.1	–	–	39.1
Current liabilities							
Trade and other payables		(26.9)	(5.2)	(32.1)	9.1	(1.0)	(24.0)
Non-current liabilities							
Deferred tax liabilities		–	–	–	(5.6)	–	(5.6)
Other non-current liabilities		–	(8.1)	(8.1)	8.1	–	–
Total identifiable assets		52.8	58.1	110.9	133.9	(3.5)	241.3
Goodwill	*12*						145.1
Total consideration							386.4
Satisfied by:							
Cash		172.6	189.0	361.6	–	–	361.6
Contingent consideration		–	1.2	1.2	–	–	1.2
Deferred payment		–	1.1	1.1	–	–	1.1
Fair value gain on previously held interest		–	22.5	22.5	–	–	22.5
		172.6	213.8	386.4	–	–	386.4

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. There have been no material revisions of the provisional fair value adjustments since the initial values were established for each of the acquisitions completed in 2010. The cash discharged figure above includes **€5.3m** 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. **€24.1m** of goodwill recognised is expected to be deductible for income tax purposes.

Transaction expenses related to acquisitions of **€3.9m** were charged against non-trading items in the Group's Consolidated Income Statement during the year.

30. Business combinations (continued)

The contingent consideration arrangements require specific contractual obligations to be met before a settlement is made. These contractual obligations vary in relation to the acquisitions to which they relate. The estimated fair value of these obligations at the acquisition date was €1.2m. The potential amount of all future payments which the Group could be required to make under these arrangements is approximately between €1.2m and €2.3m.

The fair value of the financial assets includes trade and other receivables with a fair value of €39.1m and a gross contractual value of €41.2m.

The principal acquisitions completed during 2011 are summarised as follows:

In January 2011, the Group acquired the following:

— the Unilever Frozen Savory Foodservice business based in Texas and North Carolina USA, which develops and markets a variety of frozen soups, frozen sauces and meal solutions;
— the business and assets of UK based Headland Foods. Headland Foods is a leading manufacturer of frozen customer branded ready meals supplying major retailers in the UK. The Competition Commission in the UK formally cleared the completed acquisition of Headland Foods in December 2011; and
— EBI Cremica, a provider of food coating systems to the food processor and foodservice sectors in India.

The Group acquired General Cereals S.A. in June 2011, based in Argentina the acquired company manufactures extruded cereals for a range of customers.

The Group acquired the business and assets of Lactose India in September 2011, which manufactures lactose based products for the pharmaceutical market.

In October 2011 the Group acquired SuCrest GmbH, a leading provider of sweet ingredients to the bakery, ice-cream, confectionery, cereal and snack sectors in European markets. Production and product development facilities are located in Germany and Belarus.

In December 2011, the Group acquired the following:

— the Cargill Flavour Systems business (CFS). This business has well-established flavour technology development expertise serving a global customer base from its integrated flavour development centres in France, the UK, South Africa, India, Malaysia, China, the USA, Puerto Rico, Mexico and Brazil;
— the business and assets of FlavourCraft, the acquired business based in South Africa, is a provider of flavourings and food formulations to regional savoury and food markets; and
— the business and assets of IJC, which was part of the Australian Windsor Farms Foods sweet ingredients business. The business supplies sweet ingredients to the bakery and confectionery end-use markets.

In addition, the Group acquired the remaining controlling interest in Esterol Sdn. Bhd which is a manufacturer of food emulsifiers. The initial investment was acquired by the Group as part of a previous business combination. The interest not controlled was not material and was held in non-current liabilities (note 21). On acquiring control the Group, as required under IFRS 3 (2008) 'Business Combinations', re-measured its existing interest at fair value with the resulting gain recognised in the Consolidated Income Statement. The Group also completed a number of smaller acquisitions in the UK, Canada and Central America.

The main acquisitions contributed revenue of €56.6m to the Group in 2011. If these acquisitions had been completed on 1 January 2011, total Group revenue for the year would have been €5,507.1m.

During 2011 after allowing for acquisition related costs the main acquisitions contributed a loss after tax of €10.8m. If these acquisitions had been completed on 1 January 2011, the Group profit after tax would have been €370.6m.

Due to the fact CFS was acquired near the end of 2011, the revenue included in the Group's reported revenue is not material and loss after tax and acquisition related costs included in the Group results was €3.5m. In a full year CFS is expected to contribute revenue of €142.9m.

31. Contingent liabilities

	2011 €'m	2010 €'m
Company:		
(a) Guarantees in respect of borrowings of subsidiaries	1,565.9	1,301.7

(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 2011 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, 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 its fair value to be negligible.

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:

	2011 €'m	2010 €'m
Group:		
Commitments in respect of contracts placed	38.1	20.3
Expenditure authorised by the Directors but not contracted for at year end	49.0	50.9
	87.1	71.2

(b) At the balance sheet date the Group had commitments under non-cancellable operating leases which fall due as follows:

	2011 €'m	2010 €'m
Within 1 year	28.0	27.4
Within 2 to 5 years	46.8	51.6
After 5 years	20.2	24.0
	95.0	103.0

The operating lease charges during 2011 amounted to **€31.8m** (2010: €30.5m).

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 **€1.0m** (2010: €0.8m) and **€0.3m** (2010: €0.3m) respectively. The trading balance outstanding to the Group at the year end was **€0.02m** (2010: €0.01m).

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 **€34.0m** (2010: dividend receivable of €10.0m) and cost recharges of **€3.6m** (2010: €5.9m).

(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 2011 dividends of **€11.3m** (2010: €10.8m) 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 27).

Remuneration cost of key management personnel is as follows:

	2011 €'m	2010 €'m
Short-term benefits (salaries, fees and other short-term benefits)	4.9	5.6
Post-retirement benefits	0.5	0.5
LTIP accounting charge	1.4	0.9
Other long-term benefits	–	–
Termination benefits	–	–
Total	6.8	7.0

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 64 to 67.

Dividends totalling **€0.1m** (2010: €0.1m) were also received by key management personnel during the year, based on their personal interests in the shares of the company.

34. Events after the balance sheet date

Since the year end, the Group has proposed a final dividend of 22.40 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 2011.

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 represents the amount transferred to reserves as a result of renominalising 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 27.

Available-for-sale investment reserve

Accumulated gains and losses arising on the fair value of available-for-sale financial assets that have been recognised in other comprehensive income. Net amounts are reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

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 (euros) 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

Company Name	Nature of Business	Country	Registered Office
Breeo Brands Limited	Consumer Foods	Ireland	1
Breeo Enterprises Limited	Consumer Foods	Ireland	1
Breeo Foods Limited	Consumer Foods	Ireland	1
Charleville Research Limited	Services	Ireland	1
Cuarto Limited	Ingredients & Flavours	Ireland	1
Dawn Dairies Limited	Consumer Foods	Ireland	1
Duffy Meats Limited	Consumer Foods	Ireland	1
Dynaboo Limited	Consumer Foods	Ireland	1
Fambee Limited	Consumer Foods	Ireland	1
Freshways Limited	Consumer Foods	Ireland	1
Glenealy Farms (Turkeys) Limited	Consumer Foods	Ireland	1
Golden Vale Clare Limited	Investment	Ireland	1
Golden Vale Dairies Limited	Agribusiness	Ireland	1
Golden Vale Food Products Limited	Ingredients & Flavours	Ireland	1
Golden Vale Holdings Limited	Investment	Ireland	1
Golden Vale Investments Limited	Investment	Ireland	1
Golden Vale Limerick Limited	Consumer Foods	Ireland	1
Golden Vale Limited	Investment	Ireland	1
Henry Denny & Sons (Ireland) Limited	Consumer Foods	Ireland	1
Irish Cold Stores Limited	Consumer Foods	Ireland	1
Kerry Agribusiness Holdings Limited	Investment	Ireland	1
Kerry Agribusiness Trading Limited	Agribusiness	Ireland	1
Kerry Creameries Limited	Agribusiness	Ireland	1
Kerry Farm Supplies Limited	Agribusiness	Ireland	1
Kerry Food Ingredients (Cork) Limited	Ingredients & Flavours	Ireland	1
Kerry Group Business Services Limited	Services	Ireland	1
Kerry Group Financial Services	Services	Ireland	1
Kerry Group Services International Limited	Services	Ireland	1
Kerry Group Services Limited	Services	Ireland	1
Kerry Holdings (Ireland) Limited	Investment	Ireland	1
Kerry Ingredients & Flavours Limited	Ingredients & Flavours	Ireland	1
Kerry Ingredients (Ireland) Limited	Ingredients & Flavours	Ireland	1
Kerry Ingredients Holdings (Ireland) Limited	Investment	Ireland	1
Kerry Ingredients Trading Limited	Ingredients & Flavours	Ireland	1
Kerry Treasury Services Limited	Services	Ireland	1
Kerrykreem Limited	Consumer Foods	Ireland	1
Lifesource Foods Research Limited	Consumer Foods	Ireland	1
National Food Ingredients Limited	Ingredients & Flavours	Ireland	1
Newmarket Co-operative Creameries Limited	Ingredients & Flavours	Ireland	1
Newmarket Marketing Company Limited	Ingredients & Flavours	Ireland	1
Newmarket Farms Limited	Ingredients & Flavours	Ireland	1
Newmarket Retail Limited	Ingredients & Flavours	Ireland	1
Pixundo Limited	Consumer Foods	Ireland	1
Plassey Holdings Limited	Investment	Ireland	1
Platters Food Company Limited	Consumer Foods	Ireland	1
Princemark Holdings Limited	Services	Ireland	1
Quandu Limited	Consumer Foods	Ireland	1

36. Principal subsidiaries (continued)

Company Name	Nature of Business	Country	Registered Office
Rye Developments Limited	Services	Ireland	1
Rye Investments Limited	Consumer Foods	Ireland	1
Rye Valley Foods Limited	Consumer Foods	Ireland	1
Snowcream (Midlands) Limited	Consumer Foods	Ireland	1
Tacna Investments Limited	Investment	Ireland	1
Trundu Limited	Consumer Foods	Ireland	1
William Blake Limited	Ingredients & Flavours	Ireland	1
Breeo Food Products (Northern Ireland) Limited	Consumer Foods	UK	2
Henry Denny & Sons (NI) Limited	Consumer Foods	UK	2
Dairy Produce Packers Limited	Ingredients & Flavours	UK	3
Golden Cow Dairies Limited	Consumer Foods	UK	3
Golden Vale (NI) Limited	Investment	UK	3
Leckpatrick Dairies Limited	Consumer Foods	UK	3
Leckpatrick Holdings Limited	Investment	UK	3
Diversity Foods Limited	Consumer Foods	UK	4
Kerry Foods Limited	Consumer Foods	UK	4
Kerry Foods Distribution Limited	Consumer Foods	UK	4
Kerry Holdings (U.K.) Limited	Investment	UK	4
Kerry Savoury Foods Limited	Consumer Foods	UK	4
Noon Group Limited	Consumer Foods	UK	4
Dairyborn Foods Limited	Ingredients & Flavours	UK	5
Cereal Innovations Limited	Ingredients & Flavours	UK	6
Dale Country Foods Limited	Ingredients & Flavours	UK	6
EBI Foods Limited	Ingredients & Flavours	UK	6
Gordon Jopling (Foods) Limited	Ingredients & Flavours	UK	6
Kerry Ingredients (UK) Limited	Ingredients & Flavours	UK	6
Kerry Ingredients Holdings (U.K.) Limited	Investment	UK	6
Peak Ingredients Limited	Ingredients & Flavours	UK	6
Titusfield Limited	Ingredients & Flavours	UK	6
Cargill Flavour Systems UK Limited	Ingredients & Flavours	UK	6
Spicemanns Limited	Ingredients & Flavours	UK	7
SpringThyme Oils Limited	Ingredients & Flavours	UK	8
Dera Holding NV	Ingredients & Flavours	Belgium	9
Kerry (NL) B.V.	Ingredients & Flavours	Netherlands	10
Kerry Group B.V.	Investment	Netherlands	10
Dera Food Technology CZ SRO	Ingredients & Flavours	Czech Republic	11
Kerry Foods France Sarl	Ingredients & Flavours	France	12
Kerry Ingredients France S.A.S.	Ingredients & Flavours	France	13
Kerry Ingredients Holdings (France) S.A.	Investment	France	13
Kerry Savoury Ingredients France S.A.S.	Ingredients & Flavours	France	14
Kerry Flavours France S.A.S.	Ingredients & Flavours	France	14
Kerry Foods GmbH.	Ingredients & Flavours	Germany	15
Kerry Ingredients GmbH.	Ingredients & Flavours	Germany	15
Sucrest GmbH.	Ingredients & Flavours	Germany	16
Vicos Nahrungsmittel	Ingredients & Flavours	Germany	16
Vitella Vitebsk	Ingredients & Flavours	Belarus	17
Cremo Ingredients A/S	Ingredients & Flavours	Denmark	18

36. Principal subsidiaries (continued)

Company Name	Nature of Business	Country	Registered Office
Kerry Ingredients & Flavours Italia S.p.A.	Ingredients & Flavours	Italy	19
Kerry Polska Sp. z.o.o.	Ingredients & Flavours	Poland	20
Kerry Hungaria KFT.	Ingredients & Flavours	Hungary	21
Kerry Luxembourg S.a.r.l.	Services	Luxembourg	22
Dera Food Technology ROM SRL	Ingredients & Flavours	Romania	23
Kerry Limited Liability Company	Ingredients & Flavours	Russia	24
OOO Sucrest	Ingredients & Flavours	Russia	25
Kerry Bio-Science Egypt Misr L.L. Co.	Ingredients & Flavours	Egypt	26
Kerry Ingredients South Africa (Pty) Limited	Ingredients & Flavours	South Africa	27
Dera SK SRO	Ingredients & Flavours	Slovakia	28
Dera Limited	Ingredients & Flavours	Ukraine	29
Flavurence Corporation	Ingredients & Flavours	USA	30
GB Seasonings Inc.	Ingredients & Flavours	USA	30
Geneva Flavors Inc.	Ingredients & Flavours	USA	30
Guernsey Bel, Inc.	Ingredients & Flavours	USA	30
Kerry Biofunctional Ingredients Inc.	Ingredients & Flavours	USA	30
Kerry Holding Co.	Investment	USA	30
Kerry Inc.	Ingredients & Flavours	USA	30
Mastertaste Holding Co.	Investment	USA	30
Nuvex Ingredients Inc.	Ingredients & Flavours	USA	30
Hickory Specialties Inc.	Ingredients & Flavours	USA	31
Oregon Chai, Inc.	Ingredients & Flavours	USA	32
Stearns & Lehman, Inc.	Ingredients & Flavours	USA	33
Presco Food Seasonings Inc.	Ingredients & Flavours	USA	34
Kerry Finance (US) LLC	Services	USA	35
Kerry (Canada) Inc.	Ingredients & Flavours	Canada	36
Rector Foods Limited	Ingredients & Flavours	Canada	37
Kerry Ingredients (de Mexico) S.A. de C.V.	Ingredients & Flavours	Mexico	38
Kerry do Brasil Ltda.	Ingredients & Flavours	Brazil	39
Vittaflavour Ltda.	Ingredients & Flavours	Brazil	40
Kerry de Amazonia Ingredientes e Aromas Limitada	Ingredients & Flavours	Brazil	40
Prima S.A. de C.V.	Ingredients & Flavours	Costa Rica	41
Kerry Chile Ingredientes, Sabores Y Aromas Limitada	Ingredients & Flavours	Chile	42
General Cereals S.A.	Ingredients & Flavours	Argentina	43
Kerry Flavor Systems Puerto Rico Inc.	Ingredients & Flavours	Puerto Rico	44
Kerry Ingredients & Flavours Colombia S.A.S.	Ingredients & Flavours	Colombia	45
Kerry Ingredients (Thailand) Limited	Ingredients & Flavours	Thailand	46
Kerry Food Ingredients (Philippines), Inc.	Ingredients & Flavours	Philippines	47
Kerry Food Ingredients (Cebu), Inc.	Ingredients & Flavours	Philippines	48
Kerry Ingredients (S) Pte Limited	Ingredients & Flavours	Singapore	49
Kerry Ingredients (M) Sdn. Bhd.	Ingredients & Flavours	Malaysia	50
Esterol Sdn. Bhd.	Ingredients & Flavours	Malaysia	51
Kerry Japan Kabushiki Kaisha	Ingredients & Flavours	Japan	52
Kerry Food Ingredients (Hangzhou) Company Limited	Ingredients & Flavours	China	53
Kerry Ingredients Trading (Shanghai) Limited	Ingredients & Flavours	China	54
Kerry Ingredients Indonesia Pty. Limited	Ingredients & Flavours	Indonesia	55
Kerry Ingredients India Pvt. Limited	Ingredients & Flavours	India	56

36. Principal subsidiaries (continued)

Company Name	Nature of Business	Country	Registered Office
Kerry India Limited	Ingredients & Flavours	India	57
Kerry Ingredients Australia Pty. Limited	Ingredients & Flavours	Australia	58
Kerry Ingredients (NZ) Limited	Ingredients & Flavours	New Zealand	59

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 Woestjnstraat 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 Villenueve 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, Johanessburg, South Africa 1609.
28 Sancova 50, 811 04 Bratislava, Slovakia.
29 4 Korolenkivska str., Kiev, Ukraine.
30 1209 Orange Street, Wilmington, Delaware 19808, USA.
31 800 South Gay Street, Suite 2021, Knoxville, Tennessee 37929, USA.
32 388 State Street, Suite 20, Salem, Oregon 97301, USA.
33 1300 E. Ninth Street, Cleveland, Ohio 44114, USA.
34 351 W. Camden Street, Baltimore, Maryland 21201, USA.
35 208 S. LaSalle Street, Suite 814, Chicago, Illinois 60604, USA.

36. Principal subsidiaries (continued)

Registered Office (continued)

36 Suite 3600, 55 King Street West, Toronto-Dominion Bank Tower, Toronto Dominion Center, Toronto, M5K 1N6, Canada.
37 66 Wellington Street, Toronto-Dominion Bank Tower, Toronto, Ontario, M5K 1N6, Canada.
38 Carr. Panamericana, Salamanca Km 11.2, 36660 Irapuato, Guanajuato, Mexico.
39 Rua Cristiano Alves da Silva, 15, Parque Jussara, Tres Coracoes, MG, Brazil.
40 Av. Djalma Batista, no. 1661, Millenium Shopping Mall, Business Tower, Cidade De Manaus, Estado do Amazonas, Brazil.
41 200 metros al este del Banco Nacional en la Uruca Contiguo a la Bomba Shell, San José, Costa Rica.
42 Isidora Goyenechea 2800, Piso 43, Las Condes, Santiago, Chile.
43 Av. Libertador 6570, Piso 7, Departamento A, Buenos Aires, Argentina.
44 818 W. Seventh Street, Los Angeles, California 90017 USA.
45 CR 7 NO. 71 52 TO A P 5, Bogotá, Colombia.
46 No 618, Moo 4, Bangpoo Industrial Estate, Praksa Sub District, Muang District, Samutprakarn Province, Thailand.
47 GF/SFB#1, Mactan Economic Zone 1, Lapulapu City, Cebu, Philippines.
48 P. Suico St., Tabok, Mandaue City, Cebu, Philippines.
49 3 Anson Road, #27-01 Springleaf Tower, Singapore 079909, Singapore.
50 Suite 1301, 13th Floor, City Plaza, Jalan Tebrau, 80300 Johor Bahru, Johor, Malaysia.
51 Lot 41, Lengkuk Keluli 1, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor, Malaysia.
52 Kamiyacho Sankei Building. 2F, 1-7-2, Azabudai 1-chome, Minato-ku, Tokyo 106-0041, Japan.
53 Renhne Industry Zone, Jiulong Village, Hangzhou, China.
54 Room 248, Ximmao Building, 2 Tai Zhong Road South, Waigaoqiao Free Trade Zone, Shanghai, China.
55 JL Industri Utama Blok SS No. 6, Jababeka II Mekarmukti, Cikarang Utara, Bekasi 17520, Indonesia.
56 17th Floor, Nirmal Building, Nariman Point, Mumbai 400 021, India.
57 Theing Road, Phillaur, 144410, District Jalandhar, Punjab, India.
58 No 8 Holker Street, Newington, NSW 2127, Australia.
59 11-13 Bell Avenue, Otahuhu, Auckland, New Zealand.