

DIRECTORS' REPORT  
GOVERNANCE REPORT  
AUDIT COMMITTEE REPORT



**Christopher Rogers**  
Chairman of the Audit Committee

Dear Shareholder,

On behalf of the Audit Committee it is my pleasure to present our report for the year ended 31 December 2019.

The report details how the Audit Committee fulfilled its responsibilities during the year under the 2018 UK Corporate Governance Code and the Irish Annex (the Code) and the 2016 Financial Reporting Council (FRC) Guidance on Audit Committees.

During the year, we continued to focus our efforts on the Committee's core areas of responsibility of maintaining integrity across all aspects of Group financial reporting, internal control, risk management and audit quality. The chart on page 108 outlines the allocation of the Committee's time across these various activities.

The Committee is responsible for assisting the Board in regard to the assessment of the principal risks facing the Group, including reviewing the Group's risk management and internal control systems. The work performed by the Committee in this regard encompassing ongoing monitoring and the review of effectiveness is detailed on page 110.

The Committee is also responsible for monitoring the integrity of the Group's Financial Statements and any formal announcement relating to the Group's financial performance. In addition, the Committee assisted the Board in determining that the Annual Report and Consolidated Financial Statements, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position, performance, business model and strategy. The work completed in this regard is set out on page 109.

As outlined on page 111, the Committee has considered the requirements of the Companies Act 2014 in relation to the Directors' Compliance Statement and is satisfied that appropriate steps have been undertaken by the Company to ensure that it is materially compliant with its relevant obligations.

Our engagement with the Group Internal Audit function and external auditor is detailed on pages 110-111.

An external review of the Committee was conducted by Independent Audit Limited (Independent Audit) during 2019 and the outcome of this review was that the Committee was satisfied that it is operating effectively. Further details are set out on page 108.

In July, together with the Chairman of the Board, Mr. Philip Toomey, I visited the North American Savoury Taste Centre of Excellence and manufacturing facility in Clark, New Jersey, USA and met with key members of the North American leadership team. On a number of occasions during the year I also visited the Global Technology & Innovation Centre in Naas, Ireland where I met with members of senior management and the Group Internal Audit team.

I trust you will find this report useful in understanding the operation and activities of the Committee during the year. I will be available to shareholders at the forthcoming AGM to answer any questions relating to the role of the Committee.

A handwritten signature in black ink that reads "Christopher Rogers". The signature is written in a cursive style and is positioned above a horizontal line.

**Christopher Rogers**  
Chairman of the Audit Committee

## Roles and Responsibilities

The main roles and responsibilities of the Committee, which reflect the Code and the Guidance on Audit Committees, are set out in its written terms of reference which are available from the Group's website [www.kerrygroup.com](http://www.kerrygroup.com) or upon request.

The key responsibilities outlined in the terms of reference are included in the table below:

### Primary Responsibilities of the Audit Committee

- Ensuring the interests of shareholders are properly protected in relation to financial reporting and internal control;
- Assisting the Board in executing its duties in relation to risk management and oversight and monitoring of internal controls;
- Monitoring the work of the Internal Audit function and ensuring that it is operating effectively;
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditor as well as monitoring their effectiveness and independence;
- Reviewing the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and considering the appropriateness of accounting policies and practices;
- Advising the Board on whether it believes there are any material uncertainties that may impact the Group's ability to continue as a going concern or impact the Group's long term viability;
- Advising the Board on whether the Annual Report and Consolidated Financial Statements, when taken as a whole is fair, balanced and understandable;
- Supporting the Board in assessing the effectiveness of the Group's whistleblowing arrangements; and
- Advising the Board in relation to compliance with stock exchange and other legal or regulatory requirements.

During the year, the Audit Committee Chairman provided a letter to the Board outlining how the Committee discharged its duties in 2019.

## Committee Membership

During 2019, the Audit Committee comprised four independent non-Executive Directors; Dr. Hugh Brady, Ms. Joan Garahy, Mr. Tom Moran and was chaired by Mr. Christopher Rogers.

As required by the Code, the Board is satisfied that both Mr. Christopher Rogers and Ms. Joan Garahy meet the requirements for recent and relevant financial experience. The Board is satisfied that together, the members of the Committee, as set out in their biographical details on page 91, bring a broad range of relevant experience and expertise, from a wide variety of industries and backgrounds, and as a whole have competence relevant to the sectors in which the Group operates. The Company Secretary is the Secretary of the Committee.

## Committee Meetings

The Committee met six times during the year and attendance at these meetings is detailed on page 104.

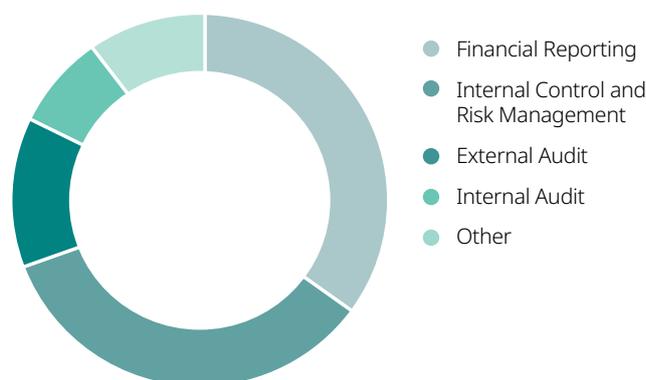
Typically, the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller, the Company Secretary and the Head of Internal Audit, as well as representatives of the external auditor are invited to attend meetings of the Committee. In addition, the Chairman of the Board attends meetings at the invitation of the Committee. When required, other key executives and senior management are invited to attend meetings to provide a deeper insight on agenda items related to the Group's principal risks.

The Committee meet with the external auditor and the Head of Internal Audit, without other executive management being present, on an annual basis in order to discuss any issues which may have arisen in the year under review.

After each Committee meeting, the Chairman of the Committee reports to the Board on the key issues which have been discussed.

The allocation of the Audit Committee's time across each of its key activities is detailed below.

### Allocation of Time



## Committee Evaluation

As outlined in detail on page 105, an external review of the Board and its Committees took place in 2019. This process was externally facilitated by Independent Audit. The evaluation was carried out based on interviews held between Independent Audit and the Chair, Committee members and the Head of Internal Audit. In addition, as part of the evaluation process, Independent Audit observed the November Committee meeting and reviewed the corresponding papers. The Committee considered the outcome of this review and a number of recommendations were agreed relating to the Group's approach to specific areas of risk management which will form part of the agenda for the Committee meetings in the coming year.

During the year, the Audit Committee also completed an internal review of its own effectiveness. On the basis of both the external and internal reviews, the Audit Committee was deemed to have operated effectively during the period under review. The Committee is satisfied that formal and transparent arrangements exist for considering corporate reporting, risk management, internal control principles and for maintaining an appropriate relationship with the Group's external auditor.

## Key Activities

### Financial Reporting and Significant Financial Judgements

The Audit Committee reviewed the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and all formal announcements relating to these statements before submitting them to the Board of Directors with a recommendation to approve. These reviews focused on, but were not limited to:

- the appropriateness and consistency of accounting policies and practices;
- the going concern assumption;
- compliance with applicable financial reporting standards, corporate governance requirements and the clarity and completeness of disclosures; and
- significant areas in which judgement had been applied in the preparation of the Consolidated Financial Statements in accordance with the accounting policies.

A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the Consolidated Financial Statements. The Committee has, with the support of PwC as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management have made appropriate judgements and disclosures. The table below sets out the significant matters considered by the Committee in relation to the Consolidated Financial Statements for the year ended 31 December 2019.

## Fair, Balanced and Understandable

At the request of the Board, the Audit Committee reviewed the content of the Annual Report to ensure that it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and the Company's position, performance, business model and strategy.

In satisfying this responsibility, the Committee considered the following:

- the timetable for the co-ordination and preparation of the Annual Report and Consolidated Financial Statements, including key milestones as presented at the December Audit Committee meeting;
- the systematic approach to review and sign-off carried out by senior management with a focus on consistency and balance;
- a detailed report from senior finance management was presented to the Audit Committee outlining the process through which they assessed the narrative and financial sections of the 2019 Annual Report to ensure that the criteria of fair, balanced and understandable has been achieved; and
- the draft Annual Report and Consolidated Financial Statements were available to the Audit Committee in sufficient time for review in advance of the Committee meeting to facilitate adequate discussion at the meeting.

Having considered the above, in conjunction with the consistency of the various elements of the reports, the narrative reporting and the language used, the Committee confirmed to the Board that the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position, performance, business model and strategy.

Significant Financial Reporting Judgements	
<b>Business Combinations</b>	The Group acquired eleven businesses during the financial year which were accounted for as business combinations. The Committee reviewed the methodology and assumptions applied in determining these provisionally estimated fair values and found the methodology and assumptions to be appropriate following discussion with senior management and the external auditor.
<b>Impairment of Goodwill and Indefinite Life Intangible Assets</b>	Goodwill and indefinite life intangible assets, as disclosed in note 12 to the Consolidated Financial Statements, represents the largest number on the Group balance sheet at €3.9 billion. The Committee considered the process to complete the annual impairment review of the Group's goodwill and indefinite life intangible assets and specifically the assumptions used for the future cash flows, discount rates, terminal values and growth rates. The Committee found that the methodology used for the above valuation and annual impairment review are appropriate following discussions with senior management and the external auditor.
<b>Taxation</b>	Significant judgement and a high degree of estimation is required when arriving at the Group's tax charge and liability. The Committee, in conjunction with tax professionals, reviewed and discussed the basis for the judgments in relation to uncertain tax positions and challenged management on their assertions and also considered the outcome of the external auditors' review of the tax charge and liability. As a result, the Committee believes the impact of uncertain tax positions has been appropriately reflected in the tax charge and liability.

## Internal Control and Risk Management

The Audit Committee supports the Board in its duties to review and monitor, on an ongoing basis, the effectiveness of the Group's risk management and internal control systems. A detailed overview of the Group's risk management framework is set out in the Risk Report on pages 73-75.

Throughout the year, the Committee:

- reviewed and approved the assessment of the principal risks and uncertainties, including emerging risks, that could impact the achievement of the Group's strategic objectives as described on pages 76-87;
- received presentations on a selection of principal risks and discussed with senior management the material internal controls that exist to mitigate these to levels within the Group's risk appetite;
- reviewed quarterly reports from the Head of Internal Audit based on internal audits completed outlining non-compliances with Group controls and managements' action plans to address them;
- considered reports from the Head of Internal Audit on fraud investigations or other significant control matters which occurred during the year and approved plans to address and remediate the issues identified;
- received updates from the Group Financial Controller on any control weaknesses identified through monthly financial review meetings;
- considered the results of the Kerry Control Reporting System (the internal control self-assessment review of material finance, operational and compliance controls) and concluded that the controls are operating effectively;
- assessed the Group's risk management and internal control framework in line with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting; and
- reviewed the report from the external auditor in respect of significant financial accounting and reporting issues, together with significant internal control weakness observations.

The Audit Committee, having assessed the above information, is satisfied that the internal control and risk management framework is operating effectively and has reported this opinion to the Board.

## Internal Audit

The Audit Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, plans, activities and resources. To fulfil these duties the Committee:

- reviewed and approved the Group Internal Audit function's strategy and annual plan to ensure alignment with the Group's principal risks;
- considered and were satisfied that the competencies, experience and level of resources within the Internal Audit team were adequate to achieve the proposed plan;
- considered the role and effectiveness of internal audit in the overall context of the Group's risk management framework and was satisfied that the function has appropriate standing within the Group;

- received quarterly updates from the Head of Internal Audit on progress against the agreed plan including the results of internal audit reports and management's actions to remediate issues identified;
- received updates on the nature and extent of non-audit activity performed by internal audit;
- held a meeting with the Head of Internal Audit without the presence of management;
- ensured that the Head of Internal Audit had regular meetings with the Chairman of the Audit Committee and had access to the Chairman of the Board if required; and
- ensured co-ordination between Group Internal Audit and the external auditor to maximise the benefits from clear communication and co-ordinated activities.

In order to comply with the Chartered Institute of Internal Auditors (CIIA) requirements, an External Quality Assessment (EQA) by an independent body is conducted at least every five years to confirm conformance with the International Professional Practice Framework (IPPF) of the CIIA. The most recent EQA was completed in 2017 and the next review will be completed in 2022. On an annual basis, to ensure ongoing compliance with the IPPF, the Internal Audit function has a Quality Assurance and Improvement Program (QAIP) in place.

On the basis of the above the Committee concluded that for 2019 the Internal Audit function operated effectively and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

## External Auditor

On behalf of the Board, the Audit Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, assessing their independence and effectiveness and approving the audit fee.

During the year, the Committee met with the external auditor without management present to discuss any issues that may have arisen during the audit of the Group's Consolidated Financial Statements.

## Independence and Provision of Non-Audit Services

The Committee is responsible for ensuring that the external auditor is independent and for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group.

PwC confirmed to the Audit Committee that they are independent from the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's Ethical Standards for Auditors. The current audit lead engagement partner on the Group's audit is John McDonnell who was appointed in 2016 and it is planned that he will rotate off the team at the end of the audit of the results for financial year 2020 in order to ensure continued independence and objectivity.

In accordance with the Group's policy on the hiring of former employees of the current external auditor, the Committee reviews and approves any appointment of an individual, within three years of having previously been employed by the current external auditor, to a senior managerial position in the Group.

A formal policy governing the provision of non-audit services by the external auditor is in place and this policy is reviewed and approved by the Audit Committee on an annual basis. This policy is designed to safeguard the objectivity and independence of the external auditor and to prevent the provision of services which could result in a potential conflict of interest. The policy outlines the services that can be provided by the external auditor, the relevant approval process for these services, and those services which the external auditor is prohibited from providing (as outlined in Article 5 of EU Regulation 537/2014). Prohibited services include activities such as certain tax services, book-keeping and work relating to the preparation of accounting records and financial statements that will ultimately be subject to external audit, financial information system design and implementation, internal auditing and any work where a mutuality of interest is created that could compromise the independence of the external auditors.

In 2019, all non-audit services and fees were approved by the Audit Committee in line with policy. The Committee is satisfied that the non-audit fees paid to PwC, which were minimal, did not compromise their independence or objectivity. Full details of the fees paid to the external auditors during the year are outlined in note 3 to the financial statements. Having considered all of the above, the Committee concluded that the Group's external auditor is independent.

### **Effectiveness**

Post completion of the 2018 audit, in conjunction with PwC, review meetings were held with senior finance management across all regions and it was confirmed by both parties that no issues had arisen during the audit process.

At the November Audit Committee meeting, PwC outlined to the Committee in detail the external audit plan. The Committee discussed the significant audit risks and key audit matters, audit scope and materiality amongst other matters. The Audit Committee agreed that the plan and the materiality at which any misstatements should be reported by PwC to the Committee was appropriate.

Prior to the finalisation of the 2019 Consolidated Financial Statements, the Audit Committee received a detailed presentation and final report from PwC. The Committee also considered feedback from the lead partner and senior executives in concluding that PwC effectively delivered against the objectives of the agreed audit plan.

In assessing the effectiveness of the external auditor, the Audit Committee also considered the following:

- the quality of presentations to the Board and Audit Committee;
- the technical insights provided relevant to the Group; and
- their demonstration of a clear understanding of the Group's business and key risks.

On the basis of the above the Committee is satisfied with the effectiveness of the external auditors.

### **Appointment**

PwC were appointed as Group auditor in March 2016 following a comprehensive tender process which was overseen by the Audit Committee. On an annual basis, the Committee reviews the appointment of the external auditor, taking into account the auditor's effectiveness and independence. On that basis, the Committee recommended to the Board that PwC should continue in office as the auditor to the Group in respect of the year ending 31 December 2020.

The Audit Committee approved the remuneration of the external auditor, details of which are set out in note 3 to the Consolidated Financial Statements.

### **Directors' Compliance Statement**

During the year, the Audit Committee reviewed the appropriateness of the Directors' Compliance Policy Statement and also received a report from senior management on the review undertaken during the financial year of the compliance structures and arrangements in place to ensure the Company's material compliance with its relevant obligations. On the basis of this review, the Committee confirmed to the Board that in its opinion the Company is in material compliance with its relevant obligations.

### **Whistleblowing and Fraud Arrangements**

In accordance with the Provisions of the Code, the responsibility for overseeing whistleblowing is within the remit of the Board. During 2019, at the request of the Board, the Committee considered the Group's whistleblowing arrangements and assisted the Board in its assessment of the adequacy of these arrangements. Details of the Group's whistleblowing arrangements are outlined in the Corporate Governance Report on page 103.

The Committee also considered the Group's procedures for fraud prevention and detection to ensure that these arrangements allow for the proportionate and independent investigation of such matters and appropriate follow up action. Following this review, the Audit Committee confirmed to the Board that it was satisfied that the Group's fraud prevention procedures were adequate.