FINANCIAL REVIEW

Delivering another year of solid performance

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The Group delivered another year of solid performance against a backdrop of economic and market uncertainty, combined with increased marketplace fragmentation and industry changes. Adjusted EPS growth in constant currency was 8.6% (2017: 9.4%). This was achieved through consistent organic growth ahead of our markets, underlying margin progression, together with the contribution from the integration of acquired businesses.

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2018 and of the Group's financial position at that date.

The Key Financial Performance Indicators outlined below are used to track business and operational performance and help the Group continue to drive value creation. The Group has a disciplined financial approach of targeting continued growth while meeting its return on investment objectives. This combination of growth and return ensures the Group's financial objective of maximising shareholder return is achieved.

A combination of Growth and Return

GROWTH	**Group Volume Growth** +3.5% Outperforming our market	**Group Trading Margin** 12.2% Good underlying progression	**Constant Currency Adjusted EPS*** +8.6% **Basic EPS** (8.3%)[1]
RETURN	**ROACE*** +12.0% On target	**Free Cash Flow** €447m 72% conversion[2]	**Increased Total Dividend** +12.0% Final dividend of 49.2 cent proposed

Definitions, calculations and reconciliations for these are set out within the Key Performance Indicators section and within the Supplementary Information section – Financial Definitions on pages 203-206.

* Before brand related intangible asset amortisation and non-trading items (net of related tax).
¹ Basic EPS in the prior year included effect of a one-off deferred tax credit arising from the US tax reform changes.
² Expressed as a percentage of adjusted earnings after tax.

Analysis of Results

	% change	**2018 €'m**	2017 €'m
Revenue	3.1%	**6,607.6**	6,407.9
Trading profit	3.1%	**805.6**	781.3
Trading margin		***12.2%***	*12.2%*
Computer software amortisation		**(25.0)**	(24.3)
Finance costs (net)		**(67.0)**	(65.6)
Adjusted earnings before taxation		**713.6**	691.4
Income taxes (excluding non-trading items)		**(89.2)**	(89.5)
Adjusted earnings after taxation	3.7%	**624.4**	601.9
Brand related intangible asset amortisation		**(28.8)**	(23.6)
Non-trading items (net of related tax)		**(55.1)**	10.2
Profit after taxation		**540.5**	588.5
		EPS Cent	EPS Cent
Basic EPS	(8.3%)	**305.9**	333.6
Brand related intangible asset amortisation		**16.3**	13.4
Non-trading items (net of related tax)		**31.2**	(5.8)
Adjusted* EPS	3.6%	**353.4**	341.2
Impact of retranslating prior year adjusted earnings per share at current year average exchange rates		**-**	(15.8)
Adjusted* EPS in constant currency	**8.6%**	**353.4**	325.4

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

Revenue

Group reported revenue increased by **3.1%** to **€6.6 billion** (2017: €6.4 billion), including volume growth of **3.5%**, pricing decrease of **0.5%** related to raw material deflation passed through to customers, an adverse transaction currency impact of **0.1%**, an adverse translation currency impact of **3.4%** and contribution from business acquisitions of **3.6%**.

2017: Group reported revenue +4.5%, volume growth +4.3%, pricing +2.0%, transaction currency (0.2%), translation currency (2.4%), acquisitions +0.8%.

Taste & Nutrition reported revenue increased by **3.7%** to **€5.4 billion** (2017: €5.2 billion), including volume growth of **4.1%**, pricing decrease of **0.5%** related to raw material deflation pass through, an adverse transaction currency impact of **0.1%**, an adverse translation currency impact of **4.0%** and contribution from business acquisitions of **4.2%**.

2017: Taste & Nutrition reported revenue +5.7%, volume growth +4.7%, pricing +2.0%, translation currency (1.9%), acquisitions +0.9%.

Consumer Foods reported revenue increased by **0.6%** to **€1.3 billion** (2017: €1.3 billion), including volume growth of **1.1%**, pricing decrease of **0.4%** related to raw material deflation pass through, an adverse transaction currency impact of **0.3%**, an adverse translation currency impact of **0.6%** and contribution from business acquisitions of **0.8%**.

2017: Consumer Foods reported revenue (0.1%), volume growth +2.4%, pricing +2.0%, transaction currency (0.9%), translation currency (3.8%), acquisitions +0.2%.

Trading Profit & Margin

Group trading profit increased by **3.1%** to **€805.6m** (2017: €781.3m). Group trading profit margin was maintained at **12.2%**. Underlying margin expansion attributable to operating leverage, portfolio enhancement, efficiencies and the effect of lower pricing were offset by transaction currency headwinds and increased Kerryconnect investment due to the rollout in LATAM and planning for North America.

Trading profit margin in Taste & Nutrition increased by **20 bps** to **15.1%** (2017: 14.9%), due to the benefits of operating leverage, portfolio enhancement, efficiencies and the effect from lower pricing, partially offset by foreign currency headwinds. Trading profit margin in Consumer Foods decreased by **60 bps** to **7.5%** (2017: 8.1%) due to significant transaction currency headwinds, partly offset by underlying margin expansion of 10 bps.

A comprehensive analysis of the revenue and trading performance of the Taste & Nutrition and Consumer Foods divisions is included in the Business Reviews on pages 42-48.

Computer Software Amortisation

Computer software amortisation increased to **€25.0m** (2017: €24.3m) reflecting the ongoing progression of the Kerryconnect project. The capitalised element of the cost of this project is being amortised over a seven year period.

Brand Related Intangible Asset Amortisation

Brand related intangible asset amortisation increased to **€28.8m** (2017: €23.6m) primarily from recent acquisitions.

Finance Costs (net)

Finance costs (net) for the year increased by €1.4m to **€67.0m** (2017: €65.6m) as acquisition expenditure was partially offset by cash generation and a reduction in pension interest. The Group's average interest rate for the year was **3.8%** (2017: 3.5%).

Taxation

The tax charge for the year before non-trading items was **€89.2m** (2017: €89.5m) representing an effective tax rate of **13.0%** (2017: 13.4%). The reduction in the effective tax rate was due to changes in tax rates in a number of jurisdictions.

Acquisitions & Joint Ventures

During the year the Group completed 10 acquisitions at a total consideration of **€502.2m** and an investment in a joint venture of **€15.6m** These investments were aligned to the Group's strategic priorities for growth, bringing additional taste and nutritional technologies, expanding our presence in developing markets and adding to our foodservice offering.

The Group also announced it had reached agreement for two further strategic acquisitions for an expected total consideration of **€325.0m**, subject to regulatory approval and customary closing conditions. The acquisition of Southeastern Mills' North American coatings and seasonings business (SEM) was completed after the year end. The Group also expects to complete the acquisition of Ariake USA Inc. – a leading producer of natural clean label savoury taste solutions by the end of Q2 2019.

Non-Trading Items

During the year the Group incurred a non-trading charge of **€55.1m** (2017: income of €10.2m) net of tax. The charge in the year related to costs associated with the integration of recent acquisitions and the completion of the Brexit Currency Mitigation Programme, where good progress was made in reducing the Group's sterling transaction exposure. The prior year non-trading income arose primarily due to the one-off deferred tax credit arising from the US tax reform changes.

Adjusted EPS in Constant Currency

Adjusted EPS in constant currency increased by **8.6%** in the year (2017: +9.4%). This was achieved through volume growth ahead of our markets, underlying margin progression, together with the contribution from the effective integration of acquired businesses. Adjusted EPS increased by **3.6%** to **353.4 cent** (2017: 341.2 cent) after reflecting the adverse translation currency impact of 5.0%.

Basic EPS

Basic EPS decreased by **8.3%** to **305.9 cent** (2017: 333.6 cent) primarily due to the effect in 2017 of a one-off deferred tax credit arising from US tax reform changes. Basic EPS is calculated after accounting for brand related intangible asset amortisation of **16.3 cent** (2017: 13.4 cent) and non-trading item charge of **31.2 cent** net of related tax (2017: net credit of 5.8 cent).

Return on Average Capital Employed

The Group achieved ROACE of **12.0%** (2017: 13.0%) which was in line with the Group's strategic target of 12.0%. The 2018 ROACE was adversely impacted by the timing of investments made in the year and foreign currency movements.

Exchange Rates

Group results are impacted by fluctuations in exchange rates year-on-year versus the euro. The average rates below are the principal rates used for the translation of results. The closing rates below are used to translate assets and liabilities at year end.

	Average Rates		Closing Rates	
	2018	2017	**2018**	2017
Australian Dollar	**1.58**	1.47	**1.62**	1.53
Brazilian Real	**4.34**	3.62	**4.44**	3.96
British Pound Sterling	**0.89**	0.88	**0.90**	0.89
Chinese Yuan Renminbi	**7.82**	7.62	**7.85**	7.80
Mexican Peso	**22.72**	21.30	**22.50**	23.72
US Dollar	**1.18**	1.13	**1.14**	1.20

Dividends

The Board has proposed a final dividend of 49.2 cent per A ordinary share, payable on 10 May 2019 to shareholders registered on the record date of 12 April 2019. When combined with the interim dividend of 21.0 cent per share, the total dividend for the year amounts to 70.2 cent per share (2017: 62.7 cent per share), which is an increase of 12.0%.

Kerry's policy is to pay a dividend each year and has an unbroken record of dividend growth. Over 32 years as a listed company, the Group has grown its dividend at a compound rate of 16.9%. The Group's aim is to have double digit dividend growth each year.

Balance Sheet

A summary balance sheet as at 31 December is provided below:

	2018 €'m	2017 €'m
Property, plant & equipment	**1,767.0**	1,529.6
Intangible assets	**4,095.6**	3,646.7
Other non-current assets	**189.7**	192.2
Current assets	**2,271.4**	2,031.7
Total assets	**8,323.7**	7,400.2
Current liabilities	**1,650.8**	1,567.8
Non-current liabilities	**2,638.5**	2,259.2
Total liabilities	**4,289.3**	3,827.0
Net assets	**4,034.4**	3,573.2
Shareholders' equity	**4,034.4**	3,573.2

Property, Plant & Equipment

Property, plant and equipment increased by €237.4m to **€1,767.0m** (2017: €1,529.6m) primarily due to capital expenditure in the year offset by depreciation. Net capital expenditure in the year amounted to **€285.5m** (2017: €297.3m). This planned level of capital investment supports our growth initiatives, and included expanding our industry-leading clean label capability at our facility in Rochester, MI, USA; enhancing our savoury taste centre of excellence in Clark, NJ, USA; and expanding our facility in Nantong, China.

Intangible Assets
Intangible assets increased by €448.9m to **€4,095.6m** (2017: €3,646.7m) as additions of €478.6m primarily relating to the 10 businesses acquired during the year were partially offset by foreign exchange movements and the annual amortisation charge.

Current Assets
Current assets increased by €239.7m to **€2,271.4m** (2017: €2,031.7m), primarily due to an increase in cash on hand at 31 December 2018.

Retirement Benefits
At the balance sheet date, the net deficit for defined benefit schemes (after deferred tax) was **€44.0m** (2017: €102.0m). The decrease in the net deficit arises mainly due to favourable movement in discount rates, inflation rates and the liability management programme. The net deficit expressed as a percentage of market capitalisation at 31 December 2018 was **0.3%** (2017: 0.6%).

Shareholders' Equity
Shareholders' equity increased by €461.2m to **€4,034.4m** (2017: €3,573.2m), resulting from profits generated during the year, offset in part by dividends.

A full reconciliation of shareholders' equity is disclosed in the Consolidated Statement of Changes in Equity on page 142.

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.

Free Cash Flow
Free cash flow is an important indicator of the strength and quality of the business and of the availability of funds to the Group for reinvestment or for return to the shareholder. In 2018 the Group achieved free cash flow of **€446.5m** (2017: €501.3m).

Free Cash Flow	**2018 €'m**	2017 €'m
Trading profit	**805.6**	781.3
Depreciation (net)	**134.1**	134.0
Movement in average working capital	**(57.1)**	93.5
Pension contributions paid less pension expense	**(40.0)**	(95.3)
Cash flow from operations	**842.6**	913.5
Finance costs paid (net)	**(64.5)**	(60.2)
Income taxes paid	**(46.1)**	(54.7)
Purchase of non-current assets	**(285.5)**	(297.3)
Free cash flow	**446.5**	501.3
Cash conversion[1]	**72%**	83%

[1] Cash conversion is free cash flow expressed as a percentage of adjusted earnings after tax.

Net Debt

Net debt at the end of the year was **€1,623.5m** (2017: €1,341.7m) reflecting the cashflow generated offset by investment in acquisitions and the dividends paid in the year. The increase during the year is analysed in the table below:

Movement in Net Debt	2018 €'m	2017 €'m
Free cash flow	**446.5**	501.3
Acquisitions (net of disposals) including payments relating to previous acquisitions	**(503.2)**	(367.9)
Difference between average working capital and year end working capital	**(21.7)**	(84.4)
Non-trading items	**(59.8)**	(34.0)
Equity dividends paid	**(114.4)**	(102.2)
Exchange translation adjustment	**0.5**	(8.8)
Increase in net debt resulting from cash flows	**(252.1)**	(96.0)
Fair value movement on interest rate swaps	**(2.6)**	2.8
Exchange translation adjustment on net debt	**(27.1)**	75.2
(Increase) in net debt in the year	**(281.8)**	(18.0)
Net debt at beginning of year	(1,341.7)	(1,323.7)
Net debt at end of year	**(1,623.5)**	(1,341.7)

Exchange impact on net debt

The exchange rate translation adjustment of **€27.1m** results primarily from borrowings denominated in US dollar translated at a year end rate of $1.14 versus a rate of $1.20 in 2017.

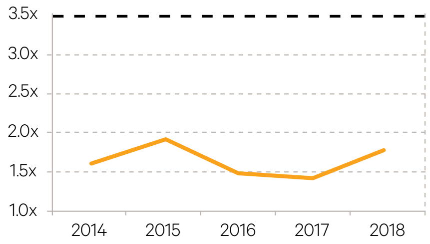
Maturity Profile of Net Debt	2018 €'m	2017 €'m
Within 1 year	**400.0**	299.2
Between 1 and 2 years	**(142.2)**	-
Between 2 and 5 years	**(1,082.8)**	(226.9)
Over 5 years	**(798.5)**	(1,414.0)
Net debt at end of year	**(1,623.5)**	(1,341.7)
Weighted average maturity (years)	**4.8**	6.0

Key Financial Covenants

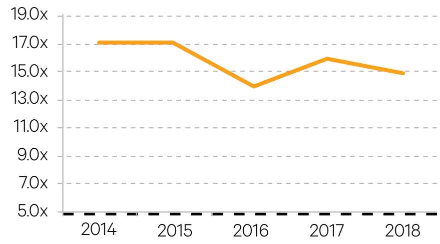
A significant portion of Group financing facilities are subject to financial covenants as set out in their facility agreements. The Group's balance sheet is in a healthy position. With a net debt to EBITDA* ratio of 1.7 times, the organisation has sufficient headroom to support future growth plans. Group Treasury monitors compliance with all financial covenants and at 31 December the key covenants were as follows:

	Covenant	**2018 Times**	2017 Times
Net debt: EBITDA*	Maximum 3.5	**1.7**	1.4
EBITDA: Net interest	Minimum 4.75	**14.7**	16.2

Net debt: EBITDA*



EBITDA: Net interest*



* Calculated in accordance with lenders' facility agreements which take account of adjustments as outlined on page 205.

Credit Facilities

Undrawn committed facilities at the end of the year were **€750.0m** (2017: €1,100.0m) while undrawn standby facilities were **€320.0m** (2017: €323.0m).

Full details of the Group's financial liabilities, cash at bank and in hand and credit facilities are disclosed in notes 23 and 24 to the consolidated financial statements.

Share Price and Market Capitalisation

The Company's shares traded in the range €78.05 to €98.85 during the year. The share price at 31 December 2018 was €86.50 (2017: €93.50) giving a market capitalisation of €15.2 billion (2017: €16.5 billion). Total Shareholder Return for 2018 was -6.8% (2017: +38.6%) reflecting a general decline in global equity markets during the last quarter in 2018 arising from uncertainties due to global trade and Brexit.

Financial Risk Management

Within the Group risk management framework as described in the Risk Report on page 73, the Group has a 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 Audit. The Group does not engage in speculative trading.

Further details relating to the Group's financial and compliance risks and their associated mitigation processes are discussed in the Risk Report on pages 73-86 and in note 24 to the consolidated financial statements.

Summary and Financial Outlook

The Group delivered another year of solid performance in 2018 generating revenue of **€6.6 billion**, trading profit of **€806m** and free cash flow of **€447m**, against a backdrop of economic and market uncertainty, combined with increased marketplace fragmentation and industry changes. At year end the balance sheet is also in a good position and with a net debt: EBITDA ratio of **1.7 times**, the Group has sufficient headroom to support the future growth plans of the organisation.

The Group looks forward to further financial growth and business development in the year ahead.

10 YEAR EARNINGS HISTORY

A strong history of positive results

	2009 €'m	2010 €'m	2011 €'m	**2012 €'m	2013 €'m	2014 €'m	2015 €'m	2016 €'m	2017 €'m	**2018 €'m**
Revenue	4,520.7	4,960.0	5,302.2	5,848.3	5,836.7	5,756.6	6,104.9	6,130.6	6,407.9	**6,607.6**
Trading profit	422.3	470.2	500.5	559.0	611.4	636.4	700.1	749.6	781.3	**805.6**
Computer software amortisation	(4.5)	(4.3)	(5.4)	(8.7)	(11.5)	(13.6)	(18.7)	(23.4)	(24.3)	**(25.0)**
Finance costs (net)	(69.8)	(60.5)	(46.0)	(62.1)	(67.6)	(52.9)	(69.3)	(70.4)	(65.6)	**(67.0)**
Adjusted earnings before taxation*	348.0	405.4	449.1	488.2	532.3	569.9	612.1	655.8	691.4	**713.6**
Income taxes (excluding non-trading items)	(61.2)	(68.7)	(74.6)	(77.3)	(79.1)	(79.6)	(81.1)	(86.7)	(89.5)	**(89.2)**
Adjusted earnings after taxation*	286.8	336.7	374.5	410.9	453.2	490.3	531.0	569.1	601.9	**624.4**
Brand related intangible asset amortisation	(12.3)	(11.8)	(13.9)	(14.7)	(16.6)	(14.4)	(18.7)	(23.0)	(23.6)	**(28.8)**
Non-trading items (net of related tax)	(73.3)	(0.7)	0.1	(135.5)	(352.2)	4.0	13.1	(13.0)	10.2	**(55.1)**
Profit after taxation attributable to owners of the parent	201.2	324.2	360.7	260.7	84.4	479.9	525.4	533.1	588.5	**540.5**
Adjusted EPS (cent)*	163.9	192.1	213.4	234.0	257.9	278.9	301.9	323.4	341.2	**353.4**

* Adjusted EPS, adjusted earnings before taxation and adjusted earnings after taxation are calculated before brand related intangible asset amortisation and non-trading items (net of related tax) and are considered more reflective of the Group's underlying trading performance. Growth in Adjusted EPS on a constancy currency basis is disclosed on page 204.

** 2012 was restated in line with IAS 19 (2011) 'Employee Benefits' which was adopted as required by IFRS in 2013. All other years are presented as reported.