Kerry Group: Interim Management Statement

31 October 2012 - Kerry, the global ingredients & flavours and consumer foods group, issues the following Interim Management Statement for the nine months to 30 September 2012 and reaffirms outlook for full year.

BUSINESS PERFORMANCE

The Group continued to achieve good organic growth in the three month period to 30 September 2012. Performance was solid across all regions, notwithstanding the challenging market conditions in Europe and the continuing competitive consumer foods market situation in Ireland and the UK. Further progress was made in the deployment of resources to meet the Group’s growth objectives and customer requirements in developing markets.

Reported sales revenue for the nine months increased by 10.9% to €4.4 billion reflecting like-for-like [LFL] growth of 2% when account is taken of acquisitions net of disposals and currency translation. Continuing business volumes grew by 2.1% and product pricing/mix increased by 0.8%. Rationalisation volumes arising from restructuring of production across the Group’s manufacturing sites amounted to 0.9% for the period.

Trading profit for the nine months increased by 12.1% on a reported basis. In line with the business momentum reported at the half year stage, the Group’s underlying trading margin performance remained strong in the period. Despite increased unallocated development costs relating to the Group’s ongoing 1 Kerry business transformation programme and global IT project and the dilutive impact of 2011 acquisitions, the Group trading profit margin increased by 10 basis points relative to the same period of 2011. This reflects a 10 basis points increased margin in Ingredients & Flavours and an unchanged margin in Consumer Foods.

INGREDIENTS & FLAVOURS

Revenues in ingredients & flavours increased by 14.8% on a reported basis, reflecting 3.5% LFL growth. Continuing business volumes grew by 2.9% outperforming growth rates in our markets. The continuing programme to optimise the Group’s manufacturing footprint gave rise to 0.3% volume loss. Pricing/mix increased by 0.9%.

The Americas region achieved solid growth through successful layering of technologies and innovation with key customer accounts resulting in 2.4% continuing business volume growth. Savoury, Dairy & Culinary systems performed well despite sectoral market challenges in particular in the meat industry. Indianapolis [IN] based Millennium Foods was acquired in August further strengthening Kerry’s technologies serving dairy, culinary and prepared meals end-use-markets. Griffith do Brasil, a specialist manufacturer of meat systems, flavours and texturant systems was also acquired – extending the Group’s capability to serve added-value growth segments of the Brazilian meat industry. Cereal & Sweet systems continued to perform well particularly through successful innovation and launches of ‘bite size’ snackable products. In the beverage sector, Kerry’s expanded beverage flavours capability, following the acquisition of Cargill’s flavours business prior to year end 2011, continued to achieve excellent results.

In the EMEA region, continuing business volumes grew by 1.1% despite the prevailing economic impact on consumer trends. Overall business performance was significantly assisted by the Group’s 1 Kerry
strategies and transformation programmes. Conditions in regional dairy and meat markets remained challenging. However culinary systems continued to achieve strong market application.

Performance in EMEA developing markets continued to benefit from the South Africa based FlavourCraft business acquired in late 2011. Sweet systems performed well in the premium ice cream sector. Kerry also maintained satisfactory progress in the cereals and bars markets despite sectoral competitiveness. Kerry continues to progress integration of the Cargill flavours business but development in the beverage sector proved difficult. Enzymes recorded continued growth in Africa and the Middle East. Primary dairy markets improved during the quarter relative to weak international market conditions in the first half of the year.

Since the end of the period, the Group announced the establishment of an industry-leading Kerry Global Technology & Innovation Centre in Ireland to serve the Group’s global and regional customers in the EMEA Region. Kerry will invest €100 million in the new EMEA Centre which will provide strategic customers with access to the Group’s complete breadth and depth of technologies, scientific research, innovation and applications expertise across food, beverage and pharmaceutical markets.

Kerry continued to record solid growth and market development in the Asia-Pacific region which delivered 8.3% continuing business volume growth in the first nine months of 2012. Dairy systems achieved strong growth through cheese sauce and yoghurt beverage applications in the QSR sector. Meat technologies grew strongly throughout the region. Development in the meat and culinary sectors was strengthened on completion of the acquisition of Angsana Food Industries in Malaysia in June and in China in September. Lipid systems maintained good growth in the nutritional sector. Kerry Pinnacle recorded good growth in the lifestyle bakery category through both retail and QSR channels. Beverage systems grew strongly through branded foodservice applications. The acquisition of Australian based Food Spectrum Group Pty Ltd in July significantly expands Kerry’s specialist aseptic processing / packaging capability in the Asia-Pacific region and also strengthens technical development in the added value dairy, nutritional and infant food / beverage categories. The benefits of the acquisition of Cargill’s flavours business in 2011 was also evident through successful new product launches and broader beverage applications.

In line with the Group’s objective to prioritise growth in developing markets, significant resources and expertise are being deployed to support Kerry’s strategic development and customer growth objectives in such fast growing markets. The Group’s Pharma platform will also be further extended in line with global market requirements – with significant investment in science and R&D capability which will be leveraged globally.

**CONSUMER FOODS**

Against a backdrop of competitive, promotionally driven consumer foods markets in Ireland and the UK, Kerry Foods maintained a satisfactory overall business performance. UK branded segments performed well. In Ireland Kerry’s dairy brands also progressed well but brand performance in the meat category was impacted by intense price driven competition from private label and discounter offerings. Sales through independent retail channels were also adversely impacted by such trends.

In the nine months to the end of September reported revenues in Consumer Foods increased by 2.4% reflecting a 0.9% decline LFL. Continuing business volumes increased by 0.6% and pricing / mix reflected a 0.5% increase. Restructuring of production across a number of Foods’ sites resulted in a 2.1% rationalisation volume loss.

Richmond maintained its growth momentum in the UK sausage category. Performance in the cooked meats category was assisted by the Richmond all-natural ham range. Mattessons performed well in the meat snack category, as did Cheestrings in the children’s cheese snack sector. Cheestrings also achieved strong growth in the German market.

The UK chilled ready meals category continued to record good growth and market conditions in the frozen meals category stabilised.
Trading in the Irish consumer foods market remains challenging. Denny faced intense competition from heavily discounted private label offerings. However the Galtee value range of products continued to grow. The Dairygold and Charleville brands performed well in the spreads and cheese categories respectively.

The ‘direct-to-store’ service to the independent retail trade in the UK and Ireland continues to be heavily impacted by the level of promotional activity and competition from the multiple retail sector.

**FINANCIAL REVIEW**

At the end of the period, net debt at €1.4 billion was similar to that reported at the half-year stage despite increased investment in development capital expenditure, footprint optimisation and acquisitions. The Group continues to integrate the Cargill flavours business and other acquired businesses. Business disposals include the EMEA candied fruit and some other small non-core activities. We continue to implement the 1 Kerry business excellence programme across all operations and functional areas to leverage global capabilities whilst optimising manufacturing, scale and efficiency benefits. With effect from 1 January 2013, the Group will report in accordance with the revised ‘IAS 19 Employee Benefits’ accounting standard. 2012 financial information will be re-presented on a consistent basis.

**FUTURE PROSPECTS**

The Group is confident of achieving its growth targets for the full year and delivering nine to eleven per cent growth in adjusted earnings per share.

- Ends -

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