Kerry Group: Interim Management Statement

6 November 2014 - Kerry, the global ingredients & flavours and consumer foods group, issues the following Interim Management Statement for the nine months to 30 September 2014 and reaffirms outlook for full year.

Key Highlights

9 months to 30 September 2014

- 2.4% increase in continuing business volumes
  - Ingredients & Flavours +3.6%
  - Consumer Foods -1.2%
- Group trading margin up 60 basis points
  - Ingredients & Flavours +80 bps
  - Consumer Foods +20 bps
- Earnings guidance in a range of 7% to 9% growth for full year

BUSINESS PERFORMANCE

Notwithstanding challenging market conditions in many developed and developing markets, Kerry maintained a good business performance in the three month period to 30 September 2014. Sales growth was constrained in developed markets as major customer accounts were impacted by weaker consumer sentiment and a competitive retail environment. Despite increased volatility, significant currency movements and political issues in some regional developing markets, Kerry’s taste and nutritional platforms continued to achieve encouraging market growth and development – in particular in Asia. The Group’s primary consumer foods markets in Ireland and the UK, while showing early signs of recovery, remain highly competitive due to the significant structural changes in the retail landscape. Kerry Foods continues to progress its business repositioning programme to improve the quality of its portfolio in line with Group metrics.
In the nine months to 30 September 2014, continuing business volumes on a Groupwide basis increased by 2.4%. Pricing decreased by 0.2% in a relatively benign input cost environment. Group revenues on a reported basis were 2% lower reflecting the adverse translation impact of currency movements, acquisitions net of disposals and business rationalisation volume of 1.6%.

In line with the business momentum reported at the half year stage, the Group’s trading margin performance continued to improve in the period. The Group trading profit margin increased by 60 basis points relative to the first nine months of 2013. This reflects an 80 basis points margin improvement in Ingredients & Flavours and a 20 basis points improvement in Consumer Foods’ trading margin.

**BUSINESS REVIEWS**

**INGREDIENTS & FLAVOURS**

Despite industry de-stocking and lower inventory levels in many food and beverage industry sectors, Kerry achieved a 3.6% increase in continuing business volumes in Ingredients & Flavours in the nine months to end of September. Pricing declined by 0.2%. The divisional trading profit margin increased by 80 basis points - driven by business efficiency improvements arising from the Group’s 1 Kerry Business Transformation Programme.

**Americas Region** continued to achieve good growth, in particular through all-natural, clean-label and nutritional solutions. Continuing business volumes increased by 3.6%. Performance in the North American meat business was solid benefiting from Kerry savoury technologies. While growth in the culinary sector was impacted by the challenges in the frozen food category, Kerry continued to benefit from the Wynnstarr Flavors acquisition completed prior to year-end 2013. Beverage systems & flavours again delivered good growth across American markets. Kerry’s aseptic technologies delivered solid growth in nutritional segments. Beverage flavours continued to drive development in Latin American markets. Market conditions in the cereal and sweet sectors remain challenging but Kerry maintained development through snacking and ‘bite-size’ offerings. During the period, the Group disposed of its cereal manufacturing business in Argentina. Pharma ingredients maintained solid growth through excipients and cell nutrition applications.

**EMEA Region** market development proved challenging in the period due to currency fluctuations and geopolitical issues in regional developing markets, and constrained consumer spend coupled with the changing retail environment in developed markets. Establishment of the Kerry Global Technology & Innovation Centre in Ireland is well advanced and on schedule to be operational in early 2015. Ahead of the transition to the new Kerry Centre, realignment of business structures and customer service capabilities in EMEA markets was further progressed.

Continuing business volumes increased slightly by 0.1%. Beverage systems & flavours performed well through leading beverage and foodservice accounts. Dairy systems also saw good growth through foodservice channels. Primary dairy market price returns weakened further in Q3 due to a continuing increase in output in key exporting countries and a build-up of inventories in importing countries. Enzymes and hydrolysed proteins maintained satisfactory growth and nutritional ingredients & actives achieved strong growth in developing markets. Cereal & sweet technologies were impacted by sectoral competitiveness issues, in particular in Sub-Saharan African markets. Eastern European market development also

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proved more challenging particularly in the meat sector. Russia however provided solid growth opportunities despite recent political issues. In October, the Group opened a new Regional Development & Application Centre in Moscow to serve the Russian & CIS markets.

**Asia Pacific** market development again delivered excellent results in the period despite relatively weak market conditions in some regional developed markets. Continuing business volumes increased by 11.3%. Nutritional ingredients recorded strong growth in beverage and pharmaceutical markets and achieved double digit growth through premium infant nutrition applications. Dairy technologies performed well across regional developing markets. Culinary systems achieved good growth in Asia. Meat technologies were adversely impacted by sectoral issues in Australia and New Zealand. The beverage category continued to provide solid growth opportunities for beverage systems & flavours and Kerry’s branded beverage offerings in the foodservice channel. Kerry Pinnacle maintained a strong performance in the Australian lifestyle bakery sector.

**CONSUMER FOODS**

Against the backdrop of challenging retail and consumer trends in the Irish and UK markets, Kerry Foods performed satisfactorily and continued to successfully progress its business repositioning strategies. In the nine months to end of September, continuing business volumes declined by 1.2%. Pricing was marginally lower by 0.3%. The divisional trading profit margin improved by 20 basis points reflecting the ongoing business efficiency programmes and portfolio repositioning to-date.

UK Brands maintained a good performance. Richmond saw continued brand growth in the sausage sector. Mattesson’s Fridge Raiders recorded strong growth in the meat snacking sector. Cheestrings performance in Q3 was impacted by deep competitor promotional activity.

In UK customer branded segments, Kerry Foods achieved an improved performance in the third quarter compared to the H1 level of sales - in particular in the chilled ready meals sector. The frozen meals category remained challenging but Kerry Foods continues to outperform market conditions due to successful brand, channel and new business development. In August, agreement was reached with Pork Farms whereby Kerry Foods’ chilled savoury pastry manufacturing assets located in Poole, Dorset and in Spalding, Lincolnshire were acquired by the Pork Farms Group. In the private label dairy spreads sector, Kerry Foods performed well despite continued heavy promotional activity by major brands.

In Ireland, discounters continue to grow market share. However, Denny Gold Medal sausage and Denny Deli Style cooked meats continue to benefit from re-launch marketing campaigns. Dairygold maintained a strong performance in dairy spreads. Cheestrings again grew sales due to successful launches in Poland and Austria. The ‘Yollies’ children’s yoghurt snack offering, launched in Ireland in Q3, achieved an encouraging market performance to-date.

**FINANCIAL REVIEW**

At the end of September net debt stood at €1.3 billion, compared to a level of €1.1 billion reported at the half year stage. The increase reflects the impact of currency translation, increased capital expenditure and investment in working capital in the quarter. The Group’s consolidated balance sheet remains strong which will facilitate the continued organic and acquisitive growth of Group businesses.
**POST BALANCE SHEET EVENTS**

Kerry has reached agreement to acquire *Junior Alimentos*, a leading provider of culinary and sweet systems, and complete solutions to the foodservice market in Brazil. Based in Cotia, Sao Paulo, Junior offers a complete portfolio of sauces, seasonings, dairy products, sweet ingredients and beverage systems to leading QSR chains and casual dining, restaurants and hospitality outlets in Brazil. The transaction is expected to complete by end of November.

**BOARD CHANGES**

As announced on 1 October, the Board has appointed Mr Michael Dowling as Chairman Designate to succeed the present Chairman Mr Denis Buckley who will retire from the Board at year-end. Denis Buckley has served as Chairman for 11 years and has served as a Director since 1986.

Michael Dowling was appointed to the Board in 1998 and chaired the Board Audit Committee from January 2000 until February 2013. He is a former Secretary General of the Department of Agriculture, Food and the Marine in Ireland. A director of a number of private companies, he is Chairman of the Board of Management of UCC/Teagasc Food Innovation Alliance and a visiting professor, dealing with agri-food policy, in the Department of Food Business at the National University of Ireland, Cork. The appointment of Michael Dowling as Chairman Designate follows a selection process by the Nomination Committee of the Board, led by Philip Toomey, Senior Independent Director. Michael Dowling will step down from the Board Audit Committee at year-end and will be succeeded by Dr Hugh Brady (appointed to the Board in February 2014).

The Board has also co-opted Dr Karin Dorrepaal as a non-executive Director of the Company. Dr Dorrepaal has held a number of international business leadership roles and currently serves as a member of the Supervisory Board at Gerresheimer AG (Germany) since 2012. She is also a member of the Supervisory Board at Grontmij NV (the Netherlands) since 2013, Vice Chairman of the Supervisory Board of Paion AG (Germany) since end 2012 and has served as a member of the Supervisory Board of Almirall S.A. (Spain) since 2013. Dr Dorrepaal received her Ph.D from the Free University of Amsterdam, the Netherlands and also holds an MBA from the Erasmus University Rotterdam School of Management. She will join the Board in January 2015.

**FUTURE PROSPECTS**

The Group expects to deliver 7% to 9% growth in adjusted earnings per share for the full year.

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