04 May 2017

Kerry Group
AGM: Interim Management Statement

04 May 2017 – Kerry, the global taste & nutrition and consumer foods group, issues the following Interim Management Statement for the first quarter ended 31 March 2017. This statement is issued in conjunction with the Group’s Annual General Meeting which is being held today.

FIRST QUARTER HIGHLIGHTS

- 3.8% growth in business volumes
  - Taste & Nutrition +4.1%
  - Consumer Foods +2.3%
- Pricing +1.3%
- Group trading margin maintained
  - Underlying margin expansion offset by transaction currency impact and Kerryconnect investment
  - Taste & Nutrition +20bps
  - Consumer Foods (70bps)
- Earnings guidance for full year reaffirmed

Kerry Group Chief Executive Stan McCarthy said; “Our first quarter highlights a good volume driven performance across Group businesses, maintaining the momentum reported in 2016. The Group expects to achieve good revenue growth and 5% to 9% growth in adjusted earnings per share in 2017, as previously guided.”

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Website

www.kerrygroup.com
Business Performance

Kerry Group achieved a solid start to the year, maintaining the positive business momentum reported in Q4 2016. While consumer spending remained constrained in many geographic markets, health conscious consumer trends continue to drive development of authentic, tasteful, nutritious, clean label, convenient food and beverage products. Kerry’s customer alliances continue to drive a strong innovation pipeline in response to consumer requirements. In particular demand for reduced sugar, salt and artificial ingredients is accelerating product development demands across all end-use-markets in all regions. Business development in the foodservice sector remains solid due to increased out-of-home consumption. The Group maintained double-digit volume growth in the Asia-Pacific region.

Despite the uncertainty following the UK electorate decision to leave the European Union, Kerry Foods continued to perform well delivering sustained volume growth. However the division’s trading margin was impacted by the currency transaction impact of the sterling devaluation.

Groupwide business volumes grew by 3.8% and pricing increased by 1.3% in the quarter. Reported revenues increased by 4.5% reflecting the business volume growth, positive pricing, adverse transaction currency impact of 0.4%, adverse translation currency impact of 0.6% and the effect of acquisitions of 0.4%.

The Group trading profit margin was maintained, reflecting a 20 basis points improvement in Taste & Nutrition, positive underlying margin improvement in Kerry Foods offset by the aforementioned sterling transaction impact resulting in a 70 basis points margin reduction, and an increased spend on the Kerryconnect Programme.

Business Reviews

Taste & Nutrition

The Group’s global Taste & Nutrition businesses delivered 4.1% volume growth in the quarter. Pricing increased by 1.4%. Divisional trading profit margin increased by 20 basis points.

Americas Region

The Americas region achieved 3.8% volume growth and a solid performance across North and South American end-use-markets. Kerry’s clean label technologies and Kerry’s authentic savoury taste continues to deliver good growth across the meat, prepared meals, dairy and bakery sectors. Smoke & Grill technologies, benefiting from the Red Arrow acquisition, again recorded strong growth. Dairy & Culinary also maintained a solid performance particularly in Brazil. Foodservice and Direct-to-Retail segments provided good growth opportunities throughout the Americas. Channel development through Kerry’s beverage offerings were assisted by Island Oasis and Insight Beverages. Kerry branded beverage products also performed well particularly in Latin America. Development in the LATAM soft drinks sector was subdued due to consumer trends. The snacks sector also weakened in Central American markets and the North American R.T.E. cereals sector remained challenging but Kerry continued to progress development in the nutritional bar category.

In the pharma sector, cell nutrition maintained strong growth. Kerry’s Wellmune® branded immune enhancing ingredients business continued to broaden market reach into wider applications.

EMEA Region

Market conditions in the EMEA region were broadly unchanged but Kerry achieved an improved performance with business volumes increased by 1.9% compared to the same period of 2016. Good development momentum was achieved in the meat sector, particularly through foodservice applications. Savoury Taste technologies benefited from clean label trends. Dairy & Culinary maintained good growth, in particular through Kerry’s unique ‘infused oil’ applications. Sugar reduction remains a major focus throughout EMEA end-use-markets. Beverage systems benefited from out-of-home consumption trends. Market conditions in Cereal & Sweet sectors were unchanged. The QSR sector provided solid growth opportunities in Russia and conditions in MENAT and Sub-Saharan Africa stabilized. Returns from international primary dairy markets improved due to constrained production in some major exporting countries.
Asia-Pacific Region

Kerry’s strong business development performance continued throughout Asia Pacific markets. Business volumes in the quarter grew by 10.4%. Beverage taste technologies and systems grew strongly, particularly in the foodservice and c-store channels. Nutritional applications provided solid growth in China. Culinary snack systems maintained good growth in South East Asia. Culinary sauce systems performed well in Singapore, Malaysia, China and Australia. Solid growth was achieved in Japan and South Korea.

As announced in February, the Group has acquired Jurong, China based Tianning Flavours, which strengthens Kerry’s savoury and sweet flavour development capability in the Chinese food and beverage industry, and Adelaide, Australia based Taste Master – a leading flavours provider to the beverage, sweet and savoury snack, and meat & culinary industries in Australia and New Zealand. The acquisition of Taste Master was completed in mid-March and the acquisition of Tianning Flavours was completed in April.

Since the period end, the Group has reached agreement to acquire Hangzhou, China based Hangman Flavours – a leading producer of sweet and savoury flavours serving the beverage, ice cream, confectionery and snacks sectors in China.

This acquisition programme and organic investment in Group facilities continues strategic expansion of the Group’s Asian footprint to capitalise on market growth opportunities and meet customer requirements across the region’s fast growing markets. A major expansion programme at the Group’s Nantong China production facility was completed prior to year-end and two new state-of-the-art production facilities were commissioned in Batangas, the Philippines and in Cikarang, Indonesia. A new production facility is also being established in India to support taste and clean-label technology delivery.

Consumer Foods

The Group’s consumer foods division, Kerry Foods, delivered 2.3% business volume growth relative to Q1 2016. Pricing increased by 1.0% on average across the first quarter. The divisional trading profit margin decreased by 70 basis points as the underlying margin improvement was more than offset by transaction currency headwinds.

‘Mattessons’ maintained growth in the meat snacking category. The GB sausage marketplace remained challenging. ‘Fire & Smoke’ branded cooked meats performed well in the UK delicatessen and pre-pack cooked meat categories. Kerry Foods’ chilled and frozen meals businesses performed in line with expectations.

‘Cheestrings’ maintained growth in the UK market despite operational issues at the Charleville production plant. ‘Cheestrings Scoffies’ achieved listings with all major retail groups and the launch of ‘Go Go’s’ in February proved successful to-date with a range of compartment snacking trays for adults. ‘Yollies’ continued to achieve good growth in the children’s yoghurt snack sector. ‘Cheestrings’ growth strategy in mainland Europe continued to be progressed satisfactorily.

Market conditions in the UK private label spreads category stabilised during the quarter where Kerry Foods’ spreadable butter technologies continued to successfully progress market development. The Irish spreads market continued to reflect a decline in volume and value but ‘Dairygold’ again grew market share assisted by new product launches.

Financial Review

At the end of March net debt stood at €1.2 billion, compared to €1.3 billion at year-end reflecting strong cash generation in the period. On 20 January 2017, the Group repaid US$192m of Senior Notes which matured on that date. The Group’s consolidated balance sheet remains strong which will facilitate the continued organic and acquisitive growth of Group businesses.
Management Changes

As announced in February, Mr Stan McCarthy, who became Chief Executive of the Group in January 2008, will retire as Chief Executive on 30 September 2017 and as Director of the Group at year-end.

Mr Edmond Scanlon has been appointed Chief Executive Designate to succeed Mr McCarthy on his retirement. He is currently President and CEO Kerry Asia Pacific. Mr Scanlon joined Kerry’s Graduate Development Programme in 1996 and worked in Finance until his appointment as Vice President Finance, Supply Chain and Operations of Kerry’s Global Flavours Division in 2004. In 2007, he was appointed Vice President Mergers & Acquisitions, Kerry Americas region, before being appointed Global President Kerry Functional Ingredients & Actives in late 2008. In 2012, he was appointed President of Kerry China, prior to his appointment as President & CEO Kerry Asia Pacific region in November 2013.

Future Prospects

The Board is confident of delivering 5% to 9% growth in adjusted earnings per share to a range of 339.6 to 352.5 cent per share as previously guided (2016: 323.4 cent per share).

Disclaimer Forward Looking Statements

This Announcement contains forward looking statements which reflect management expectations based on currently available data. However actual results may differ materially from those expressed or implied by these forward looking statements.

These forward looking statements speak only as of the date they were made and the Company undertakes no obligation to publicly update any forward looking statement, whether as a result of new information, future events or otherwise.