

Kerry Group is global leader in Taste and Nutrition serving the food, beverage and pharmaceutical industries, and a leading supplier of added value brands and customer branded foods to the Irish, UK and selected international markets.

With revenues of circa €6 billion, the Group employs some 23,000 people and serves a global customer base in over 140 countries. The Group is headquartered in Tralee, Ireland and is listed on the Irish Stock Exchange (KYGa.I) and London Stock Exchange (KYGa.L).





READ MORE INNOVATION & COLLABORATION Taste & Nutrition Discovery facility page 35







READ MORE CONSUMER-LED SOLUTIONS Business Reviews pages 33-41



READ MORE EXPERTISE & MARKET INSIGHT Our Strategy pages 16-18

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### HIGHLIGHTS OF THE YEAR 2016 RESULTS

## Continuing to grow and deliver compelling consumer propositions

**GROUP REVENUE OF** 

**VOLUME GROWTH\* OF** 

€6.1 billion

+3.6%

**NET CASH FROM OPERATING ACTIVITIES OF** 

FREE CASH FLOW\* OF

€683 million

€570 million

TRADING PROFIT UP 7.1%

MARGIN IMPROVEMENT\* OF

€750 million

**70** bps

BASIC EPS UP 1.4%

**ADJUSTED EPS\* UP 7.1% TO** 

302.9 cent

**323.4** cent

TOTAL DIVIDEND PER SHARE UP 12.0% TO

**RETURN ON AVERAGE CAPITAL EMPLOYED\* OF** 

56.0 cent

12.9%

A strong financial and business development performance by Group businesses.

Businesses acquired in 2015 were successfully integrated providing a strong platform for international market development.

Record free cash flow.

Kerry's Taste & Nutrition Technologies and Systems continue to drive a strong pipeline of innovation.

Kerry Foods portfolio performs well in a changing consumer foods marketplace.

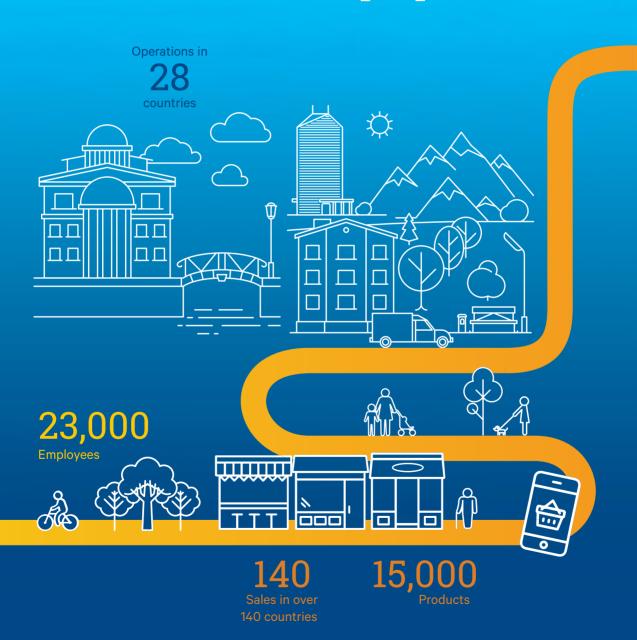
The Board recommends a final dividend of 39.2 cent per share (an increase of 12% on the final 2015 dividend) payable on 19 May 2017 to shareholders registered on the record date 28 April 2017.

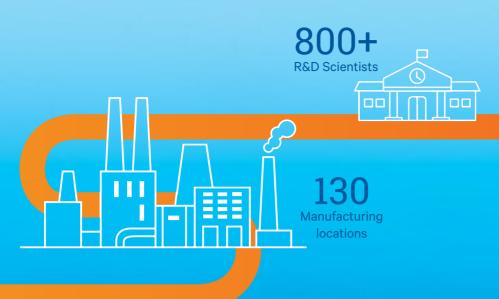
**READ MORE** Details of the Group's business performance in 2016 are presented in the Chief Executive's Review **pages 10-13** and in the Business Reviews **pages 33-41** 

<sup>\*</sup> See Group Key Performance Indicators section pages 22-23 and the Supplementary Information section page 184 for definitions, calculations and reconciliations of Alternative Performance Measures.

### **KERRY GROUP AT A GLANCE**

Delivering taste and nutrition to millions of people around the world every day





### **OUR MISSION STATEMENT**

Kerry Group will be:

- world leader in Taste and Nutrition serving the food, beverage and pharmaceutical industries, and
- a leading supplier of added value brands and customer branded foods to the Irish, UK and selected international markets.

Through the skills and wholehearted commitment of our employees, we will be leaders in our markets – excelling in product quality, technical and marketing creativity and service to our customers.

We are committed to the highest standards of business and ethical behaviour, to fulfilling our responsibilities to the communities which we serve and to the creation of long-term value for all stakeholders on a socially and environmentally sustainable basis.

**READ MORE** Sustainability Review pages 42-59

### **ABOUT US**

Kerry Group has a well established Strategy for Growth embracing Kerry's global Taste & Nutrition business and Kerry Foods' – consumer foods business.

READ MORE Our Business Model page 14 Our Strategy pages 16-18

Kerry Taste & Nutrition has successfully grown and developed to become the largest and most technologically advanced developer and provider of taste and nutrition solutions in the world. Kerry has strong customer alliances with leading global, regional and local food, beverage and pharmaceutical companies.

READ MORE Our Business Review – Taste & Nutrition pages 33-38

Kerry Foods, the Group's consumer foods division, has also established strong strategic and commercial alliances with its retail partners in the Irish, UK and selected international markets. The division's brands are household names in their respective markets including category leading brands such as Richmond, Wall's, Mattessons, Denny, Shaws, Cheestrings, Dairygold and LowLow to name but a few. Kerry Foods is also a leading provider of customer branded chilled foods.

READ MORE Our Business Review - Consumer Foods pages 39-41

### **KERRY GROUP AT A GLANCE**



### **KERRY GROUP AT A GLANCE**

### **Taste & Nutrition**

Everyday millions of people throughout the world consume food or beverage products incorporating Kerry's Taste & Nutrition technologies or systems.

Kerry Taste & Nutrition is the largest and broadest industry innovation and solutions provider in the fragmented \$70 billior global ingredients and flavours market.

We are a 'B2B' (Business to Business) taste, nutrition and functional ingredients solutions provider to all sectors of the food, beverage and pharmaceutical markets, including retail and foodservice end-use-market categories served by our customers. Kerry's market leading insight and innovation, food and beverage heritage, science and technology, and applications/culinary excellence, provides the foresight and technology to deliver products that nourish and delight consumers throughout the world.



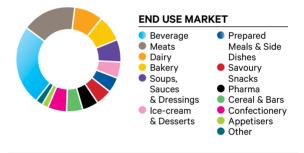




READ MORE Our Business Review - Taste & Nutrition pages 33-38







### **Consumer Foods**

Kerry Foods is a market leading supplier of added-value branded and customer branded chilled food products to the Irish, UK and selected international markets. Our consumer food products are marketed directly through multiple retailers, convenience stores and through e-commerce channels in our selected markets. Kerry Foods portfolio of consumer branded products includes over 20 high profile brands across three major market sectors; **Meat Products, Meal Solutions and Dairy Products.** The portfolio includes;

In Ireland: Denny, Galtee, Shaws, Dairygold, Cheestrings,

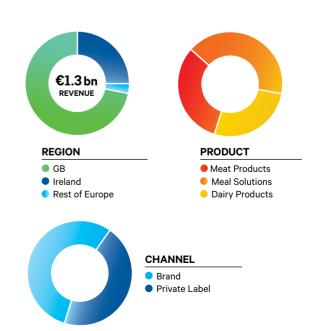
Charleville, LowLow

In the UK: Richmond, Wall's, Mattessons, LowLow, Pure, Cheestrings

**International:** Cheestrings

The division is also a leading producer of retail private label products including chilled and frozen meals, cooked meats, cheese and dairy products. It has also broadened its 'hot-to-go' offerings and channel distribution in the 'out-of-home' sector.

READ MORE Our Business Review - Consumer Foods pages 39-41



### **CHAIRMAN'S STATEMENT**

### Leading the way in taste and nutrition technology



Michael Dowling, Chairman

# SHAREHOLDER ANALYSIS 28% Retail 14% Kerry Co-operative 58% Institutions 21% North America 16% UK 12% Europe (excluding UK and Ireland) 5% Rest of World 4% Ireland

### While economic conditions were less than buoyant in many of our markets, I am pleased to report that the Group continued to grow and develop satisfactorily in 2016.

Current health and wellness trends which are driving innovation throughout all food and beverage markets in developed and developing regions, point to the relevance of Kerry's Taste & Nutrition and General Wellness technologies for today's changing marketplace.

The Group continued to advance market development in all regions and the strong growth achieved in Asian markets is particularly gratifying, considering the dynamic industry and demographic trends of such markets. Kerry's breadth of technologies and broad geographic footprint, supported by the Group's unrivalled Technology & Innovation Centres, means that it is ideally positioned to support our global and regional customers throughout world markets.

Closer to home, the Group's consumer foods business in Europe is well placed to cope with market uncertainty arising from the UK electorate vote to leave the European Union, and is well focused to meet consumer requirements for nutritional, convenient 'betterfor-you', dairy, meat, prepared meals and 'free-from' products.

### **RESULTS**

Adjusted earnings after tax before brand related intangible asset amortisation and non-trading items increased by 7.2% to €569.1m. Adjusted earnings per share increased by 7.1% to 323.4 cent (2015: 301.9 cent). The Group achieved a record free cash flow of €569.9m in 2016 and maintained a strong balance sheet to support the future growth and development of the business. Following a year of record acquisition expenditure in 2015, management focused critical attention in the past year on integration of the acquired businesses and extending the new technologies into wider taste and nutrition markets. Return on average capital employed at 12.9% was above the Group's target.

**READ MORE** Details of the Group's business performance in 2016 are presented in the Chief Executive's Review **pages 10-13** and in the Business Reviews **pages 33-41** 

### **SUSTAINABILITY**

Over the past decade Kerry has increasingly embedded sustainability thinking and positive action into the activities of all Group businesses and operations. The Group delivered good progress on its sustainability objectives in 2016 and in the implementation of it's 'Towards 2020' Sustainability Programme. An update on performance across the programme objectives and metrics is presented on pages 46-59 of this Report.

**READ MORE** Sustainability Review pages 42-59

### DIVIDEND

The Board recommends a final dividend of 39.2 cent per share (an increase of 12% on the final 2015 dividend) payable on 19 May 2017 to shareholders registered on the record date 28 April 2017. When combined with the interim dividend of 16.8 cent per share, this brings the total dividend for the year to 56 cent, an increase of 12% on 2015.

### **BOARD & MANAGEMENT CHANGES**

The Board announces that Stan McCarthy, who became Chief Executive of the Group in January 2008, will retire as Chief Executive on 30 September 2017 and as a Director of the Group at year end. The Board wishes to thank Stan for his outstanding leadership as Chief Executive and for his career-long contribution to the growth of the organisation since 1976.

The Group is pleased to announce that Edmond Scanlon has been appointed Chief Executive Designate to succeed Stan McCarthy on his retirement. The appointment was overseen by the Board Nomination Committee, chaired by Group Chairman Michael Dowling, and approved by the Board of Directors at its meeting on 20 February 2017.

Edmond is currently President and CEO Kerry Asia Pacific. He 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, Edmond 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.

As previously announced, Michael Ahern, James Devane and John Joseph O'Connor retired from the Board on 31 December 2016. I would like to thank Michael, James and John for their individual contributions and service to the organisation.

On 20 February 2017, the Board, on the recommendation of the Nomination Committee, agreed to appoint Gerard Culligan and Con Murphy to the Board with effect from 1 June 2017. Gerard Culligan operates his own business in the agribusiness sector and is a Director and co-owner of two private companies in the marine industry. He is also Chairman of Kilrush Credit Union based in County Clare, Ireland.



Edmond Scanlon, Chief Executive Designate with Stan McCarthy, Chief Executive.

Con Murphy operates his own business in the agribusiness sector and is Chairman of the Irish Montbeliarde Cattle Society. Both Gerard and Con were formerly Directors of Kerry Co-Operative Creameries Limited. As representatives of the wider community where the Kerry organisation was founded, they have extensive experience in the agriculture and food industry.

### **AUDITORS**

As stated in the Group's 2015 Annual Report, following a formal external audit tender process undertaken during 2015, the Board appointed PricewaterhouseCoopers as external auditors for the Group with effect from 29 March 2016. A resolution to formally approve their appointment as external auditors was approved by shareholders at the Annual General Meeting held on 27 April 2016. Again, may I take this opportunity to thank the outgoing auditors Deloitte for the value they contributed to the Group over the years.

### **PROSPECTS**

Your Board remains confident that the Group's business model and strategies will continue to deliver increased shareholder value. We will continue to pursue organic and acquisition growth opportunities and the Group's balance sheet is well placed to support our objectives. Management's views regarding the outlook for 2017 are presented in the Chief Executive's Review.

On the Board's behalf, I would like to thank Stan McCarthy Chief Executive, Group management and all employees for their contribution to the ongoing success of the Kerry organisation.

What lot to Swy

Michael Dowling Chairman 20 February 2017

### CHIEF EXECUTIVE'S REVIEW

## Meeting customers' innovation needs with our combined Taste & Nutrition Technologies and Systems



Stan McCarthy, Chief Executive

The Group trading profit margin increased by 70 basis points to 12.2%

12.2%

Kerry Group achieved good business volume growth momentum in a competitive market environment and delivered a strong financial performance including record cash generation in 2016.

Group businesses responded well to the prevailing business environment, increased currency volatility and marketplace changes by accelerating product innovation and improved commercial effectiveness. Health & wellness trends continued to drive 'nutritionally minded' consumer choice, increasing demand for taste, active nutrition, higher protein, natural, 'free-from', authentic, clean-label, convenient food and beverage products. With growing 'away-from-home' consumption and increased market fragmentation through retail, foodservice and ecommerce channels, the overall marketplace was marked by significant product 'churn' as food and beverage providers targeted growth opportunities through differentiated, innovative product offerings.

Kerry's unique combined Taste & Nutrition Technologies and Systems were to the fore in meeting customers' innovation needs for customised solutions responding to consumer requirements. The Group's recent investments in its global, regional and in-market Technology & Innovation Centre network and Commercial / Application facilities, coupled with a significant increase in RD&A expenditure in Taste & Nutrition to 5.1% of divisional revenue in 2016, contributed to increased customer engagement and innovation activity. Performance was also assisted by businesses acquired in 2015 which provided a strong platform for international market development.

While many developing markets were impacted by continuing geopolitical issues and significant currency volatility, Kerry continued to satisfactorily progress market development in all regions and recorded excellent growth in Asia - particularly in Q4. Groupwide performance in Q4 reflected good business development momentum against a strong prior year comparable.

**READ MORE** Our Markets page 15

### Health & wellness trends continued to drive 'nutritionally minded' consumer choice, increasing demand for taste, active nutrition, higher protein, natural, 'free-from', authentic, clean-label, convenient food and beverage products.

READ MORE Our Strategy pages 16-18

Notwithstanding the uncertainty and sterling devaluation which followed the UK electorate vote on 23 June to leave the European Union, Kerry Foods, the Group's consumer foods division, performed well, capturing growing consumer demand for authentic, convenient, nutritionally balanced offerings meeting today's lifestyle and shopper requirements.

READ MORE Business Review - Consumer Foods pages 39-41

### **RESULTS**

Group revenue on a reported basis increased slightly to €6.1 billion reflecting good volume growth offset by significant adverse currency movements and lower pricing. Business volumes grew satisfactorily during the year reflecting 3.6% growth year-on-year, good growth in North America, an improved performance in Latin American markets, challenging market conditions in the EMEA region (due to the prevailing deflationary environment and instability in regional developing markets) and a strong business performance throughout Asia. Net pricing was 2.1% lower against a background of approximately 4% lower raw material costs. Currency headwinds relative to 2015 contributed an adverse 4.1% translation impact and an adverse 0.3% transaction currency impact relative to revenue.

Taste & Nutrition achieved 4% growth in business volumes and pricing was 2.1% lower. Kerry Foods' business volumes increased by 2.1% and pricing reduced by 2%.

**READ MORE** Business Review – Taste & Nutrition **pages 33-38** 

The Group trading margin increased by 70 basis points to 12.2%. This reflects a 60 basis points improvement in trading margin in Taste & Nutrition, a 30 basis points improvement in Kerry Foods' margin and reduced spending on the Kerryconnect programme. Basic earnings per share increased by 1.4% to 302.9 cent. Adjusted earnings per share increased by 7.1% to 323.4 cent (2015: 301.9 cent).

Expenditure on research and development increased significantly due to increased investment in Taste & Nutrition to €261m (2015: €234m). Net capital expenditure amounted to €210m (2015: €229m). The Group achieved a record free cash flow of €570m (2015: €453m).

**READ MORE** Group Key Performance Indicators **pages 22-23**Financial Review **pages 24-30** 



### **BUSINESS REVIEWS**

### **Taste & Nutrition**

Taste & Nutrition reported revenue increased by 3.5% to €4.9 billion, reflecting 4% volume growth and 2.1% net lower pricing. Trading profit grew by 8.1% to €716m, reflecting a 60 basis points improvement in divisional trading margin to 14.7%. In 2016 Taste & Nutrition accounted for 79% of Group revenue and 86% of Group trading profit. Overall performance was assisted by the Group's continuing RD&A investment and by the contribution of acquisitions completed in 2015.

Kerry achieved a solid performance throughout North and South American markets in 2016. Sales revenue on a reported basis increased by 12.2% to €2,589m, reflecting 3.9% volume growth and 2.1% lower pricing. Taste & Nutrition Technologies & Systems grew across the Group's core end-use-markets in the region with strong momentum in foodservice and direct-to-retail growth sectors. *Red Arrow Products*, acquired in December 2015, performed well, assisting development in the meat and savoury sectors through its industry leading smoke and grill technologies. *Baltimore Spice* provided good growth opportunities in Latin American markets and performance in the Americas' beverage sector was assisted by *Island Oasis* and *Insight Beverages* also acquired in 2015.

Sales revenue in the EMEA region on a reported basis declined to €1,447m, reflecting a 6.4% adverse translation currency impact, an adverse 0.2% transaction currency impact, 0.7% volume growth and 2.1% lower pricing. The UK electorate vote to leave the European Union created market uncertainty and a significant devaluation of sterling. In respect of Brexit, Kerry Taste & Nutrition has a well established manufacturing footprint in the UK and in mainland Europe, and is well positioned to meet customer requirements in individual country markets. While the overall taste market remained challenging in Europe in 2016, demand for innovation grew due to consumer requirements for 'authentic taste', 'better-for-you' and 'tailored-for-you' products. The foodservice channel provided the most favourable opportunities for growth of Kerry's technology portfolio.

Kerry achieved an excellent business and market development performance in the Asia-Pacific region in 2016. End-use-market growth was achieved throughout the Group's expanded geographic footprint in the region, with accelerated overall performance in Q4. Business volumes grew by 10.7% and net pricing was 1.9% lower. Reported revenue at €765m reflects a reduction of 2.4%, due to the 7.2% adverse impact of business disposals net of acquisitions (primarily the sale of the *Pinnacle* lifestyle bakery business in Australia completed in May 2015) and 4% negative currency translation impact. A major expansion programme at the Group's Nantong, China production and distribution centre was completed prior to year end. To support the Group's expanding customer base in the region two new state-of-the-art production facilities were also commissioned in Batangas, the Philippines and in Cikarang, Indonesia.

Since year end the Group has reached agreement in principle to acquire Jurong, China based *Tianning Flavour & Fragrance Co. Ltd.*, 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 & savoury snack and meat & culinary industries in Australia and New Zealand. Both transactions are scheduled for completion by the end of Q1 and the total consideration for the businesses being acquired amounts to €83m.

### **Consumer Foods**

The consumer foods marketplace continues to change with channel proliferation arising from growth of convenience, continued expansion of discounter chains, increase in online purchases and growth in demand for food-on-the-go. With new entrants disrupting the traditional grocery model and blurring lines between 'food-to-go' and foodservice, the food and beverage landscape has remained intensely competitive. In addition consumers have increasingly focused on health and wellness variants and 'better-for-you' lines.

Retailers have responded through a renewed focus on customer branded offerings and 'better value', with a decline in deep cut promotions which has impacted volume growth. In 2016 Kerry Foods' e-tail branded sales outperformed market growth rates.

Kerry Foods' business volumes grew by 2.1% and net pricing decreased by 2% in 2016. Reported revenue at €1,333m declined by 9.7% due to adverse currency movements in 2016 and the disposal of non-core businesses net of acquisitions in 2015. Business efficiency improvements and the improved quality of Kerry Foods' portfolio contributed a 30 basis points increase in divisional trading margin to 8.8%. The underlying trading profit improvement was more than offset by the adverse currency movement and the business disposals resulting in a trading profit decrease of 6.7% to €117m.

**READ MORE** Our Markets page 15

The Group achieved a record free cash flow of

€570 million



In consumer foods' markets, Kerry Foods has demonstrated its resilience and ability to consistently respond to consumer needs across the increasingly fragmented retail, foodservice and e-tail channels.

### **FINANCIAL REVIEW**

Finance costs (net) for the year increased by €1.1m to €70.4m (2015: €69.3m). The cost of financing the high level of acquisition spend in late 2015, was largely offset by strong cash flow generated during the year and also from lower pension interest. The Group's average interest rate for the year was 3.5% (2015: 3.6%).

The tax charge for the year, before non-trading items, was €86.7m (2015: €81.1m) representing an effective tax rate of 13.7% (2015: 13.7%).

In 2016, the Group achieved a record free cash flow of €569.9m (2015: €452.6m) resulting in a net debt to EBITDA ratio at year end of 1.5 times (2015: 1.9 times).

At the balance sheet date, the net deficit for defined benefit pension schemes (after deferred tax) was €291.9m (2015: €253.3m). The increase year-on-year is primarily driven by lower discount rates.

The Company's shares traded in the range €61.87 to €84.05 during the year. The share price at 31 December 2016 was €67.90 (2015: €76.31) giving a market capitalisation of €12 billion (2015: €13.4 billion). Total Shareholder Return for 2016 was negative 10.3% (2015: +35%) as companies with UK operations and sterling exposure had their share price impacted as a result of the Brexit vote, while the wider consumer staples sector was affected by rotation into cyclical and interest rate sensitive shares after the US presidential election.

**READ MORE** Financial Review pages 24-30

### **FUTURE PROSPECTS**

The Group remains confident of its ability to continue to profitably grow and develop in the changing global marketplace. Kerry's customer-focused business model and its unrivalled breadth and depth of Taste, Nutrition & General Wellness technologies and systems, supported by the Group's industry leading Technology & Innovation Centre network, represent a significant strategic advantage in responding to consumer trends and customer requirements. Our business model supports delivery across the broadening retail, foodservice and ecommerce landscape throughout global markets. In developed markets our well established technology leadership and strong customer alliances will sustain growth through delivery of customer-preferred, convenient. tasteful, nutritional food and beverage solutions. The Group is also well focused on business development opportunities in regional developing markets, with prospects for sustained strong growth throughout Asian markets.

In consumer foods' markets, Kerry Foods has demonstrated its resilience and ability to consistently respond to consumer needs across the increasingly fragmented retail, foodservice and e-tail channels.

Man of 10 car

**Stan McCarthy**Chief Executive
20 February 2017

### **OUR BUSINESS MODEL**

## Maintaining our competitive advantage through excellence in innovation and service

Kerry's business model is based on the Group's strategy for growth embracing our global leadership in Taste & Nutrition and our consumer foods' leadership positioning in Kerry Foods' selected markets and growth categories.

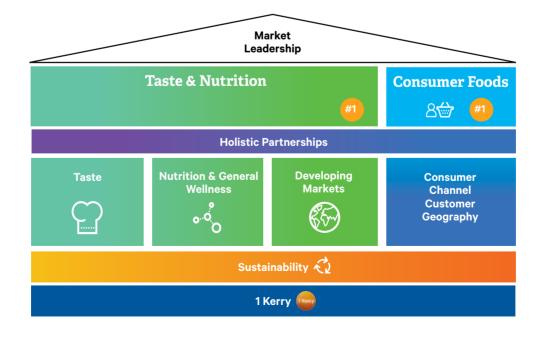
Kerry is a world leader in Taste & Nutrition providing unrivalled service to its broad customer base through its industry-leading breadth of technologies, broad geographic base and Global Technology & Innovation Centre network.

Kerry Foods, the Group's consumer foods division, has developed strong strategic and commercial alliances with its retail partners across the Irish, UK and selected European markets. It maintains market leadership positions through its category leading brands (including Wall's, Mattessons, Richmond, Pure, Denny, Cheestrings, Charleville, LowLow and Dairygold to name but a few) and through its strong alliances in customer branded categories.

The foundations of the Kerry Business Model are based on maintaining competitive advantage through excellence in innovation and service to our valued customers. Accordingly, our 1 Kerry approach to business development and customer service is focused on creating and nurturing sustainable long-term customer alliances exploiting the Group's industry-leading technologies, innovation capabilities and facilities throughout the world. Our holistic partnership approach facilitated by the Kerry Business Model (underpinned by functional excellence, involving multi-functional, multi-level, multi-channel relationships) is key in supporting our customers' business growth in developed and developing markets.

The Kerry business model will continue to leverage our strategic positioning and competitive advantages that underpin the strategic development of the Group. This sustainable scalable business model also provides for continued organic growth and supports the Group's position as a leading consolidator in the global taste and nutrition sectors.

**READ MORE** Our Strategy pages 16-18



### **OUR MARKETS**

## Understanding and anticipating change in consumer trends

Kerry has well established market leadership positions in global food, beverage and pharmaceutical markets through delivery of the Group's Taste & Nutrition technologies and systems to our customer base in over 140 countries. Kerry Foods, the Group's consumer foods business holds number 1 or 2 branded leadership positions in its selected chilled foods categories.

Today's consumer markets and changing food and beverage consumption trends require renewed vigour in product innovation and development of nutritious, tasteful offerings and menu solutions which address convenience, health & wellness and life-stage preferences.



Our markets continue to evolve and are characterised by an unprecedented level of change in attitudes and consumption trends in recent years.

Underlying factors, including population growth, demographic changes, middle-class growth

and urbanisation, 'new consumers' shopping for 'immediate satisfaction' while seeking health and wellness, variety, freshness, experience and value, in addition to the growth in foodservice markets and use of mobile technology, will continue to underpin growth in global demand in food and beverage markets well into the future.

### **ATTITUDE**

Life is an experience Instant gratification Social & ethical responsibility Value seeking

### **PACE OF LIFE**

Less personal time Need for convenience and functionality Snacking culture pervasive

### **DEMOGRAPHIC**

Shrinking middle class
Millennial growth
Urban centres
growing rapidly
Single households
Ethnic expansion

### **AWARENESS**

Back to basics approach Trying to follow a proactive, healthy lifestyle Real food and clean label Trust is key

In line with such trends, Kerry's strategic customers continue to extend their activities and marketing across global markets which in turn requires Kerry, as their preferred supplier of Taste & Nutrition technologies, to extend the Group's technical, manufacturing and customer service capabilities to a wider geographic marketplace.

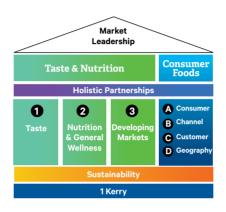
Understanding and anticipating changes in consumer trends is central to Kerry's continued successful growth and development. Our continued investment in industryleading 'Consumer and Market Insights' capability informs our consumer-focused innovation and customer engagement model. This proprietary approach in delivery of unique insights to our customers enables our strategic partners to develop their brands or customised menu offerings to grow their businesses. In the fast-changing consumer environment, taste and nutritional values remain the primary factor in re-purchasing decisions. Accordingly, speed of innovation and localisation of taste are key drivers of growth in the rapidly evolving global marketplace - providing solid innovation opportunities for Kerry's industry-leading Global and Regional Technology & Innovation Centres and Regional Development & Application Centre network.

### **OUR STRATEGY**

### A proven strategy for growth

### Our strategy is to continue to profitably grow

- our industry-leading Taste & Nutrition business across global developed and developing markets – leveraging the breadth and depth of Kerry technologies, innovation capability and market insights to provide superior service to our customers; and
- by capitalising on snacking, health and convenience trends, to deliver compelling consumer propositions which meet consumer and channel requirements through the Group's reconfigured Kerry Foods' portfolio.



This strategy will be delivered through strategic growth pillars in both the Group's Taste & Nutrition and Consumer Foods' businesses.

To maximise shareholder value, strategic development of our pillars for growth is underpinned by continued organic development and acquisition investment which can be readily integrated through the 1 Kerry Business Model.

### **Taste & Nutrition**

3 STRATEGIC GROWTH PILLARS: 1. Taste / 2. Nutrition & General Wellness / 3. Developing Markets

### 1. Taste

Our positioning is unique as our portfolio embraces Kerry's market-leading flavour and texture technologies, built on a deep foundation of fundamental research, coupled with our food science and process technology expertise, which has been built up over 40 years.

We look at our Taste capabilities to meet the 'New Consumers' taste requirements under the following areas:

Pure & Simple

Authentic & Familiar

Fresh & Invigorating

Pleasure & Indulgence

### 2. Nutrition & General Wellness

We will drive growth through our nutrition and general wellness technologies by helping create more nutritious products that are inspired by market insight and science to meet people's needs. We operate across all life stages, from infant and toddler through to adulthood, healthy aging and seniors.

Kerry has a long-standing history and a huge capability in delivering nutritious and healthy products. Our heritage in dairy along with our foundational proteins expertise enables us to provide natural nutrition capabilities. Our Nutrition & General Wellness strategy is supported and enhanced by our Functional Ingredients & Actives portfolio, which we will continue to expand, and by our depth and breadth of application expertise. Kerry also has well established partnerships with research and educational institutions to continue to evolve our science and nutrition understanding and capabilities.

### 3. Developing Markets

In line with Kerry customer requirements, and capitalising on economic and demographic trends in developing markets, the Group has targeted continued growth in specific developing markets through organic and acquisitive investment.

### **GROWTH MODEL Targets for growth:**

ASIA-PACIFIC Greater China, Indonesia, India, Malaysia, Philippines, Thailand, Vietnam EMEA South Africa, Nigeria, Turkey, Saudi Arabia, Other Middle East, Russia, Eastern Europe LATAM Brazil, Mexico, Central America

### STRATEGIC MODEL

- Business development with key regional and local players
- Local market consumer insight, application and culinary expertise
- Kerry Centre platform development
- Leveraging global purchasing power
- Leverage 1 Kerry global structure
- Expand regional production footprint







### The Group's Taste and Nutrition strategies are interdependent and uniquely benefit through Kerry's ability to formulate and leverage both platforms.



### KERRY TASTE RESEARCH PROGRAMME



### KERRY NUTRITION RESEARCH PROGRAMME



### **Consumer Foods**

Kerry Foods' strategy is underpinned by four platforms for growth

4 STRATEGIC GROWTH PILLARS: A. Consumer / B. Channel / C. Customer / D. Geography



### A. Consumer

We will use consumer-led insight and innovative technology to develop compelling propositions that delight shoppers in our core categories – meat, dairy and meals.

The consumer is at the heart of everything we do and all of our propositions will leverage deep consumer insight. Our deep rooted technology capability enables us to create products that meet consumer trends quickly with offerings that are not easy for competition to replicate. Within the Consumer Growth Platform, we are focused on three key growth trends all of which are exhibiting strong growth globally;

- a) Nutritional snacking
- b) Convenience 'quick and easy' solutions
- c) Natural health



### **B. Channel**

We will ensure our products are readily available to all our consumers, across all channels, when ever and where ever they shop.

We will engage shoppers across multiple channels from supermarket, to convenience, to online, to discounters and we will align our portfolio and propositions to meet channel needs. We are investing in people, skills and capabilities to ensure that we excel in all channels. Our core is rooted at multiple retail level but while channel proliferation brings complexity it also provides Kerry Foods with opportunities to make our products available in more places and within arm's reach of shoppers.



### C. Customer

We will work collaboratively with our customers to ensure we create products that they, and their consumers, love to buy.

Kerry Foods will actively collaborate with our customers leveraging insight, innovation, category and customer management to develop winning and engaging plans that ensure we are their partner of choice in our key categories. We also have an active programme to develop relationships with new customers beyond our existing customer base including foodservice and leisure providing us with new and exciting routes to market.



### D. Geography

We're committed to expanding our footprint beyond the UK and Ireland into new markets, to reach new customers.

Kerry Foods will actively expand its footprint beyond the UK and Ireland. We now have a presence in eight mainland European countries with Cheestrings and we are actively exploring many more. We will leverage our brands and technology into new geographies where we can establish a defendable position based on a competitive advantage which is underpinned by real consumer insight.







### **STRATEGIC ADVANTAGE**

We have a long history of sustained profitable growth. Group strategy will continue to be achieved through the commitment and expertise of our people.

Technology Leader	Market Leader	Proven Success
Unrivalled technology breadth Fundamental science & research capability Food science & process expertise Unique taste & nutrition positioning Application & culinary leadership Global Technology & Innovation Centre platform	#1 in America, Europe and ROW for Savoury, Dairy & Beverage  #1 in America, Europe for Cereal & Sweet  #1 in specialty proteins globally Top 5 in flavours globally In 5 of the top 10 blockbuster drugs  A leader in chilled food in UK and Ireland	Consistent delivery of targets since 1986  10% CAGR for revenue  14% CAGR for trading profit  13% CAGR for adjusted EPS  16% CAGR on share price  17% CAGR on dividends
Growth Potential	People 88	Sustainable 🗘
Unique customer	Proven leadership and	
intimacy model	management capability	Natural heritage
·	·	Natural heritage Investing for a sustainable future Milestone linked to performance management
intimacy model Unrivalled Taste and Nutrition capabilities	management capability  Results driven culture  Talent management –	Investing for a sustainable future  Milestone linked to

### **OUR PEOPLE**

**Enabling sustainable growth locally and globally** 

With 23,000 employees throughout the world, the Group's diverse high performance teams are central to our innovative culture and ongoing success.

**READ MORE** Sustainability Review pages 42-59

### HOW WE CREATE SUSTAINABLE VALUE

Developing the unique talents and capabilities in our business and functional areas, combining and leveraging our strengths through our 1 Kerry business model and approach, whilst retaining and nurturing our employee determination and enthusiasm to succeed, are key to the Group's strategy for continued growth and development.

Our Kerry employee-centric culture has evolved to support sustainable growth by driving engagement and performance across our groupwide businesses. The compass of our winning culture and way of working is our shared values.

### **OUR SHARED VALUES**

Commitment	Teamwork	Excellence	Entrepreneurial	Value Creation
Customers   Passion   Science   Technology	Respect   Diversity   Empowered   Accountable	Quality   Safety   Integrity   Ethics	Ownership   Innovation   Agility   Drive	Success   Results   Sustainable   ROI
We are whole-heartedly committed to the success of our customers and Kerry. We take great pride in our food and beverage heritage and continuously strengthen our science, technology and applications expertise to passionately serve our customers.	We value and respect each other. We embrace our global diversity as a key driver of our innovation and success. We are empowered and accountable for delivering greater results for our stakeholders, Kerry and our careers.	We execute with excellence in everything we do. We continuously develop our skills and improve our performance. We strive to deliver superior quality and never compromise on the safety of our colleagues or products. We operate with integrity and adhere to the highest standards of business and ethical behaviour.	We are swift and responsive, adapting quickly to the changing market. We seek innovative ideas to drive the business forward and achieve new levels of success for our customers and Kerry.	We prioritise our work to provide greater value for our customers and the business. We generate maximum returns on our investments and continuously seek better ways to deliver longterm value on a socially and environmentally sustainable basis.



### KERRY CODE OF CONDUCT

Through our Kerry Code of Conduct we focus critical attention on ethical business practices and provision of a safe and healthy workplace. Achieving results ethically and in compliance with all relevant legislation will always be an absolute expectation at Kerry Group. We operate zero tolerance for labour abuses and support effective abolition of child and forced labour worldwide. The Group's 'Employee Concerns' hotline provides a mechanism by which employees can report issues in confidence through an independent channel.

### KERRY GROUP DIVERSITY PROGRAMME

In 2016 the Group launched a new Global Diversity Programme. This programme represents Kerry's current and long-range commitment to fostering a multicultural workforce and an inclusive environment where each person can contribute to the organisation's success and excel in her or his Kerry career.

Talent		Attract the best, grow and ignite their talents and deliver sustainable success for all, by building an empowered and diverse workforce.
People C Development	\ \	Offer colleagues valuable learning experiences and development, which empowers them to achieve their career ambitions and realise their full potential.
Agile Working		Enable colleagues to take personal responsibility for finding a more balanced way to realise career aspirations and life goals.
Volunteering	Pas	Fulfill our responsibilities to the communities in which we are located, by creating a connection between ourselves and our neighbours that enables both them and our company to thrive.
Inclusion	BB)	To foster an environment where independence of thought is highly valued and where all individuals (irrespective of diverse race, colour, ethnicity, culture, gender, sexual orientation, gender identity and expression, religion, nationality, age, disability, marital and parental status) are encouraged to achieve their full potential and fully contribute to the goals of the Group.

### **HEALTH & WELLBEING AT KERRY**

The health and safety of our employees is a key priority for the Group and Kerry's safety policy establishes the fundamental principles that all employees must consider in their role and their business decisions. Global Health & Safety Management Systems are fully implemented throughout all Group businesses and in 2016 we achieved a further 9% improvement in global safety metrics. We also continued to support a range of initiatives at site level throughout the Group to encourage people to become more active and to promote greater awareness of health and wellbeing.

> In 2016 we achieved a further 9% improvement in global safety metrics

### LEARNING AND DEVELOPMENT

In 2016 our Group Human Resources teams continued to develop and implement structured training and development programmes for employees through which they acquire the skills, knowledge and capabilities necessary to assist their individual performance and development.

A new Kerry Executive Leadership programme was successfully established in 2016 - identifying new and diverse talent for future leadership and functional roles.

The Group's successful Graduate Development Programme continued to play a central role in 2016 in recruitment and development of future talent to assist the sustainable growth of the organisation.



A new Groupwide employee engagement survey will be completed in 2017 which will inform how we can improve our organisational performance and enhance our winning Kerry culture.

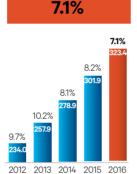
### **GROUP KEY PERFORMANCE INDICATORS**

The Group's strategic objective is to maximise shareholder return by delivering on the targets of growth in business profitability and exceeding return on investment hurdles.



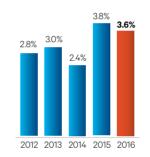
## TOTAL SHAREHOLDER RETURN (10.3%) 5 YEAR COMPOUND GROWTH 148%





**ADJUSTED** 

**EPS GROWTH** 

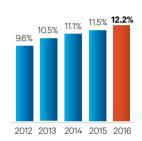


**GROWTH** 

**VOLUME** 

**GROWTH** 

3.6%



TRADING MARGIN

**EXPANSION** 

+70bps

### Definition\*

Total Shareholder Return (TSR) represents the change in the capital value of Kerry Group shares plus dividends reinvested.

### Strategic Linkage

TSR is an important indicator of how successful the Group has been in terms of shareholder value creation.

### Performance

The Group achieved a TSR of -10.3% in 2016, as companies with UK operations and sterling exposure had their share price impacted as a result of the Brexit vote, while the wider consumer staples sector was affected by rotation into cyclical and interest rate sensitive shares after the US Presidential election.

TSR growth over the past two years was +20.7%, while the Group has achieved Compound Growth of +148% in TSR since the beginning of 2012.

### **Link to Remuneration**

Performance metric for long-term incentive plan.

### Definition\*

Adjusted EPS growth represents the change in adjusted EPS in the current year compared to adjusted EPS achieved in the prior year. Adjusted EPS is considered more reflective of the Group's underlying trading performance than basic EPS.

### Strategic Linkage

EPS growth is a key performance metric as it encompasses all the components of growth that are important to the Group's stakeholders. Volume growth and margin expansion are the two key drivers of EPS growth.

### Performance

The Group achieved adjusted EPS growth of 7.1% in the year, which was below the Group's medium term target of 10% per annum, but reflects a strong underlying performance when you consider the significant translation currency headwinds in 2016. Constant currency EPS growth achieved in the year was 12.3%.

### **Link to Remuneration**

Performance metric for short-term & long-term incentive plans.

### Definition\*

This represents sales volume growth year-on-year from ongoing business, excluding volumes from acquisitions (net of disposals) and rationalisation volumes.

### Strategic Linkage

Volume growth is an important metric as it is seen as the key driver of top-line business improvement. This is used as the key revenue metric, as Kerry operates a pass-through pricing model with its customers to cater for raw material price fluctuations. Pricing therefore impacts like-for-like revenue growth positively or negatively depending on whether raw material prices move up or down.

### Performance

The Group achieved continuing volume growth in 2016 of 3.6%, which is within the Group's target range of 3-5% p.a. This was a good performance in light of a weak global marketplace.

### Link to Remuneration

Key driver of adjusted EPS growth (performance metric for short & long-term incentive plans).

### Definition\*

Trading margin expansion represents the change in trading margin in the current year compared to trading margin achieved in the prior year. Trading margin represents annual trading profit, expressed as a percentage of revenue.

### Strategic Linkage

Trading margin expansion is a key measure of profitability. It demonstrates improvement in the product mix being sold and also improvement in the operating efficiency of the business.

### Performance

The Group achieved trading margin expansion of 70 bps in 2016, which is in excess of the Group target range of +50 bps per annum (Group target after including the +100 bps benefit arising from the Kerryconnect project).

### Link to Remuneration

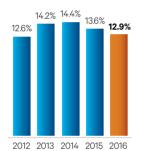
Key driver of adjusted EPS growth (performance metric for short & long-term incentive plans).

### GROUP 5 YEAR TARGETS (2013-2017) **GROWTH** Adjusted EPS 10%+ p.a. by: Volume growth Margin Expansion **Taste & Nutrition** 4% to 6% p.a. Taste & Nutrition 50bps p.a 20bps p.a Consumer Foods 2% to 3% p.a. Consumer Foods Group 3% to 5% p.a. Group 30bps p.a Plus an additional 100 bps from Kerryconnect project **RETURN ROACE 12%+ ROAE 15%+ CFROI 12%+**

Targets assume neutral currency and raw materials, and market growth rates of 2% to 3% p.a.

The metrics outlined below are important measurement indicators of Group performance in meeting its strategic objectives. Business strategy is set by the Board of Directors and all Kerry employees work towards achieving these goals. Remuneration is directly linked with performance versus these targets.

### RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE) 12.9%



### Definition\*

This measure is defined as profit after tax before non-trading items (net of tax), brand related intangible asset amortisation and finance income and costs, expressed as a percentage of average capital employed.

### Strategic Linkage

ROACE is a key measure of the return the Group achieves on its investment in capital expenditure projects, acquisitions and other strategic investments, expressed as a percentage of what resources are available to the Group.

### Performance

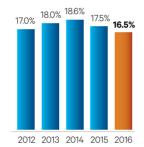
The Group achieved ROACE of 12.9% in 2016, above the Group's target of 12%. Performance in 2015 and 2016 was impacted by the significant acquisitions completed in Q4 2015.

### Link to Remuneration

Performance metric for long-term incentive plan.



**RETURN** 



### Definition\*

This measure is defined as profit after tax before non-trading items (net of tax) and brand related intangible asset amortisation, expressed as a percentage of average equity.

### Strategic Linkage

ROAE is a key measure of the return the Group achieves on its investment in capital expenditure projects, acquisitions and other strategic investments, expressed as a percentage of what shareholders have invested in the Group.

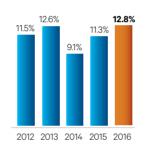
### Performance

The Group achieved ROAE of 16.5% in 2016, above the Group's target of 15%. Performance in 2015 and 2016 was impacted by the significant acquisitions completed in Q4

### **Link to Remuneration**

Similar metric to ROACE (performance metric for long-term incentive plan).

### CASH FLOW RETURN ON INVESTMENT (CFROI) 12.8%



### Definition\*

CFROI is calculated as free cash flow before finance costs paid (net), expressed as a percentage of average capital employed.

### Strategic Linkage

CFROI is important as it measures the Group's cash return on invested assets.

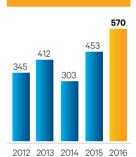
### Performance

The Group achieved a CFROI of 12.8% in 2016, above the Group's target of 12%.

### Link to Remuneration

Free Cash Flow (performance metric for short-term incentive plan) is the key driver of CFROI.

### **CASH** FREE CASH FLOW €570m



### Definition\*

Free Cash Flow is trading profit plus depreciation, movement in average working capital, net capital expenditure, pension costs less pension expense, finance costs paid (net) and income taxes paid.

### Strategic Linkage

Free Cash Flow is seen as an important indicator of the strength and quality of the business and of the availability to the Group of funds for reinvestment or for return to shareholders.

### Performance

The Group achieved record free cash flow of €570m in 2016, reflecting strong management of average working capital, and timing of capital expenditure, offset by an increase in pension contributions in 2016.

### Link to Remuneration

Performance metric for short-term incentive plan.

**READ MORE** Non-Financial KPIs are detailed in our Sustainability Review pages 42-59

\* These are non-IFRS measures or Alternative Performance Measures. Definitions, calculations and reconciliations for these are set out within the Supplementary Information section - Financial Definitions on pages 184-186.

**VOLUME GROWTH** 

+3,6%

**MARGIN IMPROVEMENT** 

+70bps

**ADJUSTED EPS** 

**CONSTANT CURRENCY** 

**+7.1%** | **+12.3%** 

**RECORD FREE CASH FLOW** 

€570m

STRATEGIC REPORT

### **FINANCIAL REVIEW**

### **Delivering a strong** performance



Brian Mehigan Chief Financial Officer

### The Group delivered a strong underlying business performance in 2016 with 7.1% adjusted earnings per share growth (12.3% growth in constant currency).

This was achieved due to 3.6% volume growth in a challenging marketplace, and trading profit margin improvement of 70bps, as the Group improved the quality of its business. A record free cash flow performance of €570m was also achieved in 2016.

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2016 and of the Group's financial position at that date.

### **KEY PERFORMANCE INDICATORS**

The performance metrics outlined below have been identified as the Kev Performance Indicators (KPIs) for the Group. These KPIs are used to measure the financial and operational performance of the Group and are used to track progress in achieving long term targets.

The targets for these KPIs for the current 5 year cycle (2013 - 2017) and the Group's performance over the 4 years from 2013 are summarised in the table below. A more expansive analysis of the Group's performance versus KPIs is included in the Group Key Performance Indicators section of the Strategic Report.

**READ MORE** Group Key Perfomance Indicators pages 22-23

**READ MORE** Non-Financial KPIs are detailed in our Sustainability Review pages 42-59

GROWTH	Target	4 Year Average	Constant Currency
Adjusted* EPS growth	10%+	8.4%	9.8%
Volume growth	3% to 5%**	3.2%	
Trading profit margin expansion	+50bps p.a.***	+70bps	
RETURN	Target	4 Year Average	
Return on average capital employed (ROACE*)	12%+	13.8%	
Return on average equity (ROAE*)	15%+	17.7%	
Cash flow return on investment (CFROI)	12%+	11.5%	

The targets above assume neutral currency and raw material costs

<sup>\*</sup> Before brand related intangible asset amortisation and non-trading items (net of related tax)

<sup>\*\*</sup> Assumes market growth rate of 2% to 3% p.a.

<sup>\*\*\*</sup> Includes 100 bps benefit arising from the Kerryconnect project

### **ANALYSIS OF RESULTS**

	% change	2016 €'m	2015 €'m
Revenue	0.4%	6,130.6	6,104.9
Trading profit	7.1%	749.6	700.1
Trading margin		12.2%	11.5%
Computer software amortisation		(23.4)	(18.7)
Finance costs (net)		(70.4)	(69.3)
Adjusted earnings before taxation		655.8	612.1
Income taxes (excluding non-trading items)		(86.7)	(81.1)
Adjusted earnings after taxation	7.2%	569.1	531.0
Brand related intangible asset amortisation		(23.0)	(18.7)
Non-trading items (net of related tax)		(13.0)	13.1
Profit after taxation		533.1	525.4
		EPS Cent	EPS Cent
Adjusted* EPS	7.1%	323.4	301.9
Brand related intangible asset amortisation		(13.1)	(10.6)
Non-trading items (net of related tax)		(7.4)	7.4
Basic EPS	1.4%	302.9	298.7

<sup>\*</sup> Before brand related intangible asset amortisation and non-trading items (net of related tax)

### Revenue

On a reported basis, Group revenue increased slightly by **0.4%** to **€6.1 billion** (2015: **€6.1** billion). Volumes grew by **3.6%**, product pricing decreased by **2.1%**, and transaction related currency had a negative impact of **0.3%**. Business acquisitions net of disposals contributed **3.3%**, and there was a negative reporting currency impact of **4.1%**.

In Taste & Nutrition, reported revenue increased by **3.5%** to **€4.9 billion** (2015: **€**4.7 billion). Volumes grew by **4.0%**, product pricing decreased by **2.1%**, and transaction related currency had a negative impact of **0.1%**. Business acquisitions net of disposals contributed **4.9%**, and there was a negative reporting currency impact of **3.2%**.

In Consumer Foods, reported revenue decreased by **9.7%** to **€1.3 billion** (2015: **€1.5** billion). Volumes increased by **2.1%**, product pricing decreased by **2.0%**, and transaction related currency had a negative impact of **1.1%**. There was a negative impact of business disposals net of acquisitions of **2.1%** and a negative reporting currency impact of **6.6%** mainly due to weaker sterling.

### **Trading Profit & Margin**

On a reported basis, Group trading profit increased by **7.1%** to **€749.6m** (2015: €700.1m). Group trading profit margin increased **70 basis points** (bps) to **12.2%**. The improvement in Group trading profit margin is attributed to improved product mix, the positive impact from acquisitions net of disposals, operating leverage, a benefit from lower spend on the 1 Kerry Business Transformation Programme, and the positive arithmetical effect which lower pricing has on the trading margin calculation (the 'denominator effect').

Trading profit margin in Taste & Nutrition increased by **60 bps** to **14.7%**, due to the benefits of improved product mix underpinned by increased investment in R&D, the positive impact from acquisitions net of disposals, operating leverage and the positive denominator pricing effect. Trading profit margin in Consumer Foods increased by **30 bps** to **8.8%** due to the benefits of an improved product mix/portfolio, and the positive denominator pricing effect.

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 33 to 41.

### **Computer Software Amortisation**

Computer software amortisation increased to €23.4m (2015: €18.7m) reflecting the ongoing progression of the Kerryconnect project. The capitalised element of the cost of this project is being amortised over a 7 year period.

### **Finance Costs (net)**

Finance costs (net) for the year marginally increased by €1.1m to €70.4m (2015: €69.3m). The cost of financing the high level of acquisition spend in late 2015 was largely offset by strong cash flow generated during the year and also from lower pension interest. The Group's average interest rate for the year was 3.5% (2015: 3.6%).

### **Taxation**

The tax charge for the year, before non-trading items, was **€86.7m** (2015: €81.1m) representing an effective tax rate of **13.7%** (2015: 13.7%).

### **Acquisitions**

During the year the Group completed two bolt-on acquisitions, establishing manufacturing bases in two new geographies. Jungjin Foods was acquired in South Korea and Vendin S.L. was acquired in Spain.

### **Non-Trading Items**

The Group recorded €13.0m of costs net of tax relating to the integration of businesses acquired in 2015. This compares to an income of €13.1m in 2015, primarily due to profits realised on the disposal of non-core businesses.

### **Adjusted EPS**

Adjusted EPS increased by **7.1%** to **323.4 cent** (2015: 301.9). The year-on-year increase was negatively impacted by translation currency headwinds. On a constant currency basis, adjusted EPS increased by 12.3% over the prior year.

### **Basic EPS**

Basic EPS increased by **1.4%** to **302.9 cent** (2015: 298.7 cent) after accounting for brand related intangible asset amortisation of **13.1c** (2015: 10.6c) and non-trading items of **7.4c** net of tax (2015: (7.4c)). Non-trading items as described above negatively impacted Basic EPS in 2016, but had a positive impact in 2015.

### **Return on Investment**

This is measured by the Group on a profit basis using ROACE and ROAE, and on a cash basis using CFROI. In 2016 the Group achieved ROACE of **12.9%** (2015: 13.6%), ROAE of **16.5%** (2015: 17.5%), while CFROI was **12.8%** (2015: 11.3%), all of which were above the Group return on investment hurdles.

### **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.

	Averag	Average Rates		Rates
	2016	2015	2016	2015
Australian Dollar	1.48	1.46	1.46	1.49
Brazilian Real	3.84	3.72	3.44	4.25
British Pound Sterling	0.82	0.73	0.86	0.73
Canadian Dollar	1.46	1.41	1.42	1.51
Malaysian Ringgit	4.58	4.30	4.73	4.69
Mexican Peso	20.67	17.46	21.87	18.73
Russian Ruble	74.13	68.07	63.81	79.70
South African Rand	16.08	13.90	14.50	16.95
US Dollar	1.11	1.12	1.05	1.09

### **Impact of Brexit**

Since the referendum in June, our Business Brexit teams have been working through and managing the potential implications for Kerry. Whilst the details of the eventual outcomes are unclear, we have been planning for different scenarios, noting that there will be a number of potential effects, most noticeably on exchange rates, labour costs/availability and tariffs in relation to the movement of goods and services. We will continue to update our plans as greater clarity emerges. Given our well established manufacturing footprint in the UK and the Eurozone, we are very well positioned to deal with the potential challenges and realise the opportunities that will arise.

### **Dividends**

The Board has proposed a final dividend of 39.2 cent per A ordinary share payable on 19 May 2017 to shareholders registered on the record date of 28 April 2017. When combined with the interim dividend of 16.8 cent per share, the total dividend for the year amounted to 56.0 cent per share (2015: 50.0 cent per share) an increase of 12.0%.

Kerry's policy is to pay a dividend each year and has an unbroken record of dividend growth. Over its 30 years as a listed company, the Group has grown its dividend at a compound rate of 17.2%. 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:

	2016 €'m	2015 €'m
Property, plant & equipment	1,451.9	1,410.4
Intangible assets	3,444.3	3,482.6
Other non-current assets	285.7	290.5
Current assets	2,240.0	1,832.3
Total assets	7,421.9	7,015.8
Current liabilities	1,693.4	1,480.6
Non-current liabilities	2,634.5	2,745.1
Total liabilities	4,327.9	4,225.7
Net assets	3,094.0	2,790.1
Shareholders' equity	3,094.0	2,790.1

### **Intangible Assets & Acquisitions**

Intangible assets decreased by €38.3m to €3,444.3m (2015: €3,482.6m) as additions during the year were offset by foreign exchange movements and the annual amortisation charge.

### **Current Assets**

Current assets increased by €407.7m to **€2,240.0m** (2015: €1,832.3m), primarily due to an increase in cash in hand at the year end, as a result of strong cash flow generated in the year.

### **Retirement Benefits**

At the balance sheet date, the net deficit for defined benefit schemes (after deferred tax) was **€291.9m** (2015: €253.3m). The increase year-on-year is primarily driven by lower discount rates in the UK, the Eurozone and the USA, the impact of which has been partially offset by cash contributions paid into the schemes during the year and a strong investment return on plan assets. The net deficit expressed as a percentage of market capitalisation at 31 December 2016 was **2.4%** (2015: 1.9%).

### **Shareholders' Equity**

Shareholders' equity increased by €303.9m to €3,094.0m (2015: €2,790.1m), 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 122.

### **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 seen as 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 2016 the Group achieved a record free cash flow of €569.9m (2015: €452.6m) analysed below with a free cash flow to adjusted\* earnings after tax conversion rate of 100% (2015: 85%). This reflects stronger profit, management of average working capital and timing of capital expenditure spend, offset by a higher level of pension contributions in 2016.

Free Cash Flow	2016 €'m	2015 €'m
Trading profit	749.6	700.1
Depreciation (net)	129.8	125.9
Movement in average working capital	137.7	(1.6)
Pension contributions paid less pension expense	(118.2)	(57.5)
Cash flow from operations	898.9	766.9
Finance costs paid (net)	(61.5)	(46.6)
Income taxes paid	(57.3)	(38.3)
Purchase of non-current assets	(210.2)	(229.4)
Free cash flow	569.9	452.6

<sup>\*</sup> Before brand related intangible asset amortisation and non-trading items (net of related tax)

### **Net Debt**

Net debt at the end of the year was €1,323.7m (2015: €1,650.1m). The decrease during the year is analysed in the table below:

Movement in Net Debt	2016 €'m	2015 €'m
Free cash flow	569.9	452.6
Acquisitions (net of disposals) including payments relating to previous acquisitions	(26.0)	(773.2)
Difference between average working capital and year end working capital	(76.0)	66.4
Non-trading items	(21.2)	(26.4)
Equity dividends paid	(91.2)	(81.8)
Exchange translation adjustment on profits	0.1	(0.7)
Decrease/(increase) in net debt resulting from cash flows	355.6	(363.1)
Fair value movement on interest rate swaps	(5.4)	0.2
Exchange translation adjustment on net debt	(23.8)	(91.9)
Decrease/(increase) in net debt in the year	326.4	(454.8)
Net debt at beginning of year	(1,650.1)	(1,195.3)
Net debt at end of year	(1,323.7)	(1,650.1)

On 20 January 2017, the Group repaid US \$192m of senior notes which matured on that date.

### **Exchange impact on net debt**

The exchange translation adjustment of €23.8m results primarily from borrowings denominated in US dollar translated at a year end rate of \$1.05 versus a rate of \$1.09 in 2015.

Maturity Profile of Net Debt	2016 €'m	2015 €'m
Within 1 year	397.8	198.0
Between 1 and 2 years	-	(153.7)
Between 2 and 5 years	(143.8)	(143.9)
Over 5 years	(1,577.7)	(1,550.5)
Net debt at end of year	(1,323.7)	(1,650.1)
Weighted average maturity (years)	6.4	7.5

### **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 1.5 times, the organisation has sufficient headroom to support its future growth plans. Group Treasury monitors compliance with all financial covenants and at 31 December the key covenants were as follows:

	Covenant	2016 Times	2015 Times
Net debt: EBITDA*	Maximum 3.5	1.5	1.9
EBITDA: Net interest*	Minimum 4.75	14.0	17.3

### Net Debt: EBITDA\*







<sup>\*</sup> Calculated in accordance with lenders' facility agreements which take account of adjustments as outlined on page 185.

### **Credit Facilities**

Undrawn committed facilities at the end of the year were €1,100.0m (2015: €1,100.0m) while undrawn standby facilities were €360.0m (2015: €340.3m).

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 €61.87 to €84.05 during the year. The share price at 31 December 2016 was €67.90 (2015: €76.31) giving a market capitalisation of €12.0 billion (2015: €13.4 billion). Total Shareholder Return for 2016 was negative 10.3% (2015: +35%), as companies with UK operations and sterling exposure had their share price impacted as a result of the Brexit vote, while the wider consumer staples sector was affected by rotation into cyclical and interest rate sensitive shares after the US presidential election.

### FINANCIAL RISK MANAGEMENT

Within the Group risk management framework as described in the Risk Report on page 60, 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 60 to 68 and in note 24 to the financial statements.

### **SUMMARY AND FINANCIAL OUTLOOK**

Against the backdrop of a volatile economic and market environment, the Group delivered another strong performance in 2016 generating revenue of €6.1 billion, trading profit of €750m and free cash flow of €570m. At year end the balance sheet is also in a good position and with a net debt: EBITDA ratio of 1.5 times, the Group has sufficient headroom to support the future growth plans of the organisation.

Despite challenging market and financial conditions continuing to prevail going into 2017, the Group looks forward to further financial growth and development in the year ahead.

### **10 YEAR EARNINGS HISTORY**

### A strong history of positive results

	2007 €'m	2008 €'m	2009 €'m	2010 €'m	2011 €'m	**2012 €'m	2013 €'m	2014 €'m	2015 €'m	2016 €'m
Revenue	4,787.8	4,790.8	4,520.7	4,960.0	5,302.2	5,848.3	5,836.7	5,756.6	6,104.9	6,130.6
Trading profit	401.1	409.2	422.3	470.2	500.5	559.0	611.4	636.4	700.1	749.6
Computer software amortisation	(2.6)	(3.6)	(4.5)	(4.3)	(5.4)	(8.7)	(11.5)	(13.6)	(18.7)	(23.4)
Finance costs (net)	(79.1)	(77.6)	(69.8)	(60.5)	(46.0)	(62.1)	(67.6)	(52.9)	(69.3)	(70.4)
Adjusted earnings before taxation*	319.4	328.0	348.0	405.4	449.1	488.2	532.3	569.9	612.1	655.8
Income taxes (excluding non-trading items)	(64.5)	(62.7)	(61.2)	(68.7)	(74.6)	(77.3)	(79.1)	(79.6)	(81.1)	(86.7)
Adjusted earnings after taxation*	254.9	265.3	286.8	336.7	374.5	410.9	453.2	490.3	531.0	569.1
Brand related intangible asset amortisation	(10.0)	(11.3)	(12.3)	(11.8)	(13.9)	(14.7)	(16.6)	(14.4)	(18.7)	(23.0)
Non-trading items (net of related tax)	1.2	(77.0)	(73.3)	(0.7)	0.1	(135.5)	(352.2)	4.0	13.1	(13.0)
Profit after taxation and attributable to owners of the parent	246.1	177.0	201.2	324.2	360.7	260.7	84.4	479.9	525.4	533.1
Adjusted EPS (cent)*	142.4	151.8	163.9	192.1	213.4	234.0	257.9	278.9	301.9	323.4

<sup>\*</sup>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.

<sup>\*\*2012</sup> 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.



**Kerry provides** the largest, most innovative portfolio of Taste & Nutrition Technologies and Systems, and Functional **Ingredients & Actives for** the global food, beverage and pharmaceutical industries

### **REVENUE**

€4,880m

GROWTH

### TRADING PROFIT

€716m

**GROWTH** 

+8.1%

### **TRADING MARGIN**

14.7%

**GROWTH** 

+60bps

STRATEGIC REPORT

### **BUSINESS REVIEW**

### **Taste & Nutrition**

### **Driving innovation and** delivering consumer preferred solutions



Gerry Behan, President and CEO of Kerry Taste & Nutrition

Kerry's Taste & Nutrition Technologies and Systems continued to drive innovation and deliver consumer-preferred solutions in all end-use-markets across global and regional accounts serving retail and foodservice markets. With increased market fragmentation, channel diversification and growing demand for niche categories, food and beverage providers continue to seek innovative solutions to meet consumer requirements for 'clean label', 'free from', no added sugar, natural. more nutritious, authentic, sustainably produced products. This has contributed to significant marketplace disruption which, coupled with macro-economic issues, adversely effected performance in some developed markets – in particular in Europe. Regional developing markets impacted by geopolitical issues remain challenged but Asian developing markets provided solid growth opportunities. Overall performance was assisted by the Group's continued RD&A investment and by the contribution of acquisitions completed in 2015. Integration of the acquired businesses has progressed satisfactorily to-date and the Group continues to invest in extending the acquired technologies into wider taste and nutrition applications in all regions.

Taste & Nutrition reported revenue increased by 3.5% to €4.9 billion, reflecting 4% volume growth and 2.1% net lower pricing. Trading profit grew by 8.1% to €716m, reflecting a 60 basis points improvement in divisional trading margin to 14.7%. In 2016 Taste & Nutrition accounted for 79% of Group revenue and 86% of Group trading profit.

<sup>\*</sup> volume growth

### TASTE & NUTRITION AMERICAS REGION



Taste again grew market positioning as the number 1 driver of food and beverage purchasing throughout the Americas region

in 2016. Sales revenue in the Americas region increased by 12.2% Health and wellness trends also combined

Taste & Nutrition Technologies & Systems grew across the Group's core end-usemarkets with strong momentum in foodservice and direct-to-retail growth sectors. Food Protection & Fermentation Technologies drove innovation in the meat, culinary, dairy and bakery sectors. Development in the meat and savoury products sector was assisted by Red Arrow Products, acquired in December 2015 - through its smoke and grill taste technologies which deliver the most authentic taste experiences in the marketplace. Growth was achieved in the US, Canadian and Latin American processor markets and also through new launches and wider meal occasions in the foodservice sector. Fermentation Technologies also successfully introduced new gluten-free, organic and non-GMO lines to its portfolio which contributed to growth in the bakery category. A US \$28m expansion programme at the Group's Rochester (MN) facility commenced in Q4 2016 to support capacity and technology advancement. Culinary Taste & Systems performed well in the meals sector. The dairy, dairy-free and yoghurt sectors also provided good growth opportunities for Kerry's taste technologies.

Continued growth was achieved in the confectionery and snacking sectors throughout American markets. Layering natural flavours and nutritional ingredients in snack seasonings systems drove innovation in the premium snacks and nutritional bar categories. Snacking as an eating occasion continues to increase, with millennials being at the forefront of category growth. Costa Rican based Baltimore Spice, acquired in July 2015, provided good growth opportunities in Latin America, particularly in Central American markets. The decline in the traditional R.T.E. cereals sector led to continued challenges in Sweet & Cereal Systems and a realignment of Kerry operations.

Awareness of sugar content, functionality, premiumisation, natural products, new packaging formats and innovation remain key drivers of growth in the beverage sector. Kerry's Beverage Taste & Systems maintained good growth, particularly in the foodservice and convenience store channels. Development in the nutritional beverage end-use-market, resulting from increased focus on 'active nutrition' and general wellness products, was driven by Kerry's liquid systems and taste technologies.

to drive growth in demand for cleanlabel, organic and 'free-from' lines, which contributed to increased fragmentation in the marketplace and growth of niche categories. This fuelled innovation pipelines and assisted a solid performance by Kerry's Taste & Nutrition Technologies and Systems in North America and an improved performance in Latin American markets relative to 2015 - in particular in the taste, culinary and beverage sectors.

Sales revenue in the Americas region on a reported basis increased by 12.2% to €2,589m, reflecting 3.9% volume growth and 2.1% lower pricing





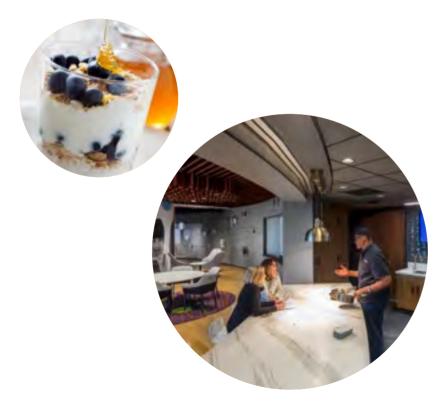
Island Oasis and Insight Beverages acquired in 2015 performed to expectations, broadening Kerry's market positioning, particularly in the c-store, hotel and catering channels. Kerry's branded beverage products including Da Vinci Gourmet and Big Train, continued to broaden market penetration in Latin American markets.

In the North American pharmaceutical sector, performance in excipients was advanced through new generic pharmaceutical lines formulated using Kerry's 'Sheffcoat' film coating system. Cell nutrition maintained strong growth through custom-developed complex media systems. Good progress was achieved in integrating the Wellmune® branded natural food, beverage and supplement immune enhancing ingredients business acquired in September 2015. In 2016 the sectoral application of Wellmune® was successfully extended with launches in sports nutrition, functional dairy beverages, yoghurt products and dietary supplements.

In line with investment to support Kerry's Taste & Nutrition strategic development and customer collaboration, the Group also opened a new Taste & Nutrition Discovery facility, bringing together marketplace consumer insights, scientific and applications expertise interactively, at the Beloit (WI) based Kerry Technology & Innovation Centre.

**READ MORE** Our Markets page 15

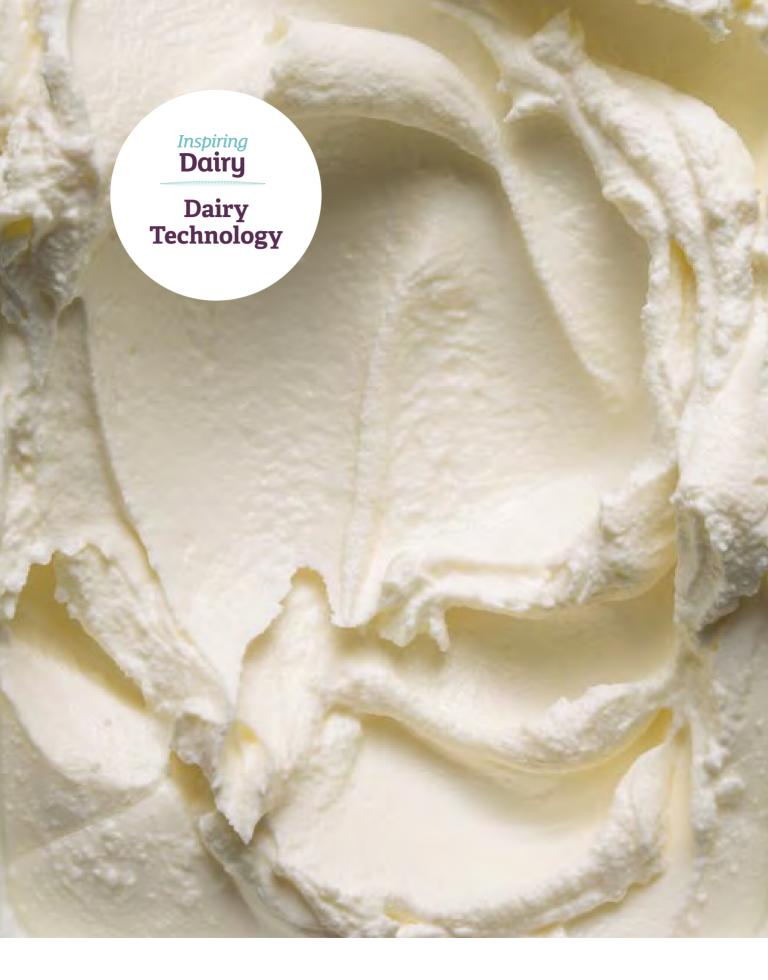












#### TASTE & NUTRITION EMEA REGION



While the overall taste market remained challenging in Europe in 2016, demand for innovation grew due to consumer requirements for 'authentic taste', 'better-for-you' and 'tailored-for-you' products.

European market conditions remained highly competitive in 2016, as the deflationary environment in the majority of developed markets limited growth and geopolitical issues continued to destabilise developing markets in the region. However, snacking and convenience trends provided positive growth momentum in the foodservice sector, benefiting Kerry's Taste & Nutrition Technologies and Systems.





General wellness trends and the particular focus on sugar and calorie reduction. which has led to Governments legislating on measures to address such issues. also contributed to a strong demand for innovation and product differentiation which resulted in increased product churn in the year under review. In 2016. in response to marketplace trends and to leverage the Group's in-market and regional investment in its Commercial / Application Centres and its Global Technology & Innovation Centre in Ireland, significant resources were deployed to advance commercial effectiveness and engagement across European markets.

Sales revenue in the EMEA region on a reported basis declined to €1,447m, reflecting a 6.4% adverse translation currency impact, an adverse 0.2% transaction currency impact, 0.7% volume growth and 2.1% lower pricing. The UK electorate vote to leave the European Union created market uncertainty and a significant devaluation of sterling. In respect of Brexit, Kerry Taste & Nutrition has a well established manufacturing footprint in the UK and in mainland Europe, and is well positioned to meet customer requirements in individual country markets.

While the overall taste market remained challenging in Europe in 2016, demand for innovation grew due to consumer requirements for 'authentic taste', 'betterfor-you' and 'tailored-for-you' products. The foodservice channel provided the most favourable opportunities for growth of Kerry's technology portfolio. Kerry Taste Technologies and Systems recorded good growth in the beverage sector. Sugar reduction was a catalyst for strong innovation in the soft drinks category. Kerry's strong capability in botanical extracts marketed under the 'Simply Nature' brand achieved good growth in the adult soft drinks sector. Beverage systems performed well in the foodservice and c-store channels, benefiting from the expanded portfolio following the acquisitions of 'Island Oasis' and 'Insight Beverages' in 2015. Vendin S.L. based in Madrid was also acquired in June 2016 which further extended Kerry's distribution of beverage solutions to the vending and foodservice channels.

Dairy & Culinary also achieved good volume growth in the foodservice sector due to menu extension capitalising on appetiser and snacking trends. 'DairvSource'. Kerry's clean-label dairy portfolio launched in 2016 was favourably received. Development in the traditional snack sector was subdued but demand for premium, innovative savoury snacks provided good growth opportunities in mainland Europe and Russia. Primary dairy production reduced in some major exporting countries in H2 2016 which contributed to improved trading conditions in international dairy markets.

Cereal & Sweet technologies were impacted by the decline in breakfast cereal consumption, a relatively poor ice cream summer season and overall consumer trends in sugar based products. Savoury Taste benefitted from clean-label and broader recipe profiles in the prepared meals, soups, sauces and dressings categories. The overall meat sector in the UK and mainland Europe remained intensely competitive which impacted development but continued market development was achieved in Eastern European markets and Russia. Market conditions in Sub-Saharan Africa stabilised in 2016 providing more favourable growth opportunities.

Fermentation technologies achieved continued growth in the EMEA bakery category. Specialised proteins grew in confectionery applications and demand for allergen-free vegetarian proteins continues to increase. Bakery, beverage and nutrition applications provided solid growth opportunities for Kerry's enzyme technology. Kerry's Europebased nutritional technologies continued to benefit from increased demand. particularly from Asian markets, for sustainably produced premium quality nutritional ingredients for all life-stage applications, including infant nutrition products.

**READ MORE** Our Markets page 15

#### TASTE & NUTRITION ASIA-PACIFIC REGION



Kerry achieved an excellent business and market development performance in the Asia-Pacific region in 2016. End-use-market growth was achieved throughout the Group's expanded geographic footprint in the region. with accelerated overall performance in Q4.

Localisation of taste, allied to increased product launches, channel expansion and growth in consumer spending provided a strong impetus for innovation, benefiting Kerry's Taste. Nutrition & General Wellness technologies. Culinary and snacking trends provided strong growth opportunities, particularly in the dynamic regional foodservice channel.

#### READ MORE Our Strategy pages 16-18

Business volumes grew by 10.7% and net pricing was 1.9% lower. Reported revenue at €765m reflects a reduction of 2.4%, due to the 7.2% adverse impact of business disposals net of acquisitions (primarily the sale of the *Pinnacle* lifestyle bakery business in Australia completed in May 2015) and 4% negative currency translation impact.

Taste Technologies and Systems maintained strong growth in Indonesia, Japan and the Philippines with good momentum in the bakery and savoury snack sectors. Culinary Snack Systems outperformed market growth rates throughout South East Asian markets. Culinary sauces grew solidly in Australia, China, Singapore and Malaysia, particularly in the foodservice channel. Jungiin Foods acquired in March 2016 provided a strong platform for growth of Kerry's taste technologies and systems in South Korea, Market conditions in Australia and New Zealand proved more stable as food and beverage providers sought increased innovation in response to health and wellness trends. The growth in middle class households provided continued market development opportunities in South West Asia. Beverage Systems maintained strong development in the regional foodservice and c-store channels. in particular in China and Japan.

Kerry's specialised proteins and enzymes continued to grow applications in Asian markets. In the pharma sector the Group's cell nutrition and excipients business continued to gain new customer listings particularly in China. The addition of Wellmune® significantly broadened Kerry's functional nutritional ingredients and wellness portfolio in 2016 which developed significant new business wins in Asia, in particular through functional beverage applications. Regulatory changes in the Chinese infant nutrition sector benefited Kerry's Europe-based nutritional technologies.

A major expansion programme at the Group's Nantong, China production and distribution centre was completed prior to year end. To support the Group's expanding customer base in the region two new state-of-the-art production facilities were also commissioned in Batangas, the Philippines and in Cikarang, Indonesia.

Since year end the Group has reached agreement in principle to acquire Jurong, China based *Tianning Flavour* & Fragrance Co. Ltd., 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 & savoury snack and meat & culinary industries in Australia and New Zealand. Both transactions are scheduled for completion by the end of Q1 and the total consideration for the businesses being acquired amounts to €83m.

Business volumes in the Asia-Pacific region grew by

10.7%





Kerry Foods is an industry-leading manufacturer of added-value branded and customer branded chilled food products to the Irish, UK and selected international markets.

#### **REVENUE**

2016

€1,333m

2.1%\*

#### TRADING PROFIT

2016

€117m

GROWTH (6.7%)

#### TRADING MARGIN

2016

8.8%

+30bps

STRATEGIC REPORT

## **BUSINESS REVIEW**

# **Consumer Foods**

Investing in production expansion and new processing technologies



Flor Healy, CEO Kerry Foods

The consumer foods marketplace continues to change with channel proliferation arising from growth of convenience, continued expansion of discounter chains, increase in online purchases and growth in demand for food-on-the-go. With new entrants disrupting the traditional grocery model and blurring lines between 'food-to-go' and foodservice, the food and beverage landscape has remained intensely competitive. In addition consumers have increasingly focused on health and wellness variants and 'better-for-you' lines. Retailers have responded through a renewed focus on customer branded offerings and 'better value', with a decline in deep cut promotions which has impacted volume growth. In 2016 Kerry Foods' e-tail branded sales outperformed market growth rates.

Kerry Foods' business volumes grew by 2.1% and net pricing decreased by 2% in 2016. Reported revenue at €1,333m declined by 9.7% due to adverse currency movements in 2016 and the disposal of non-core businesses net of acquisitions in 2015. Business efficiency improvements and the improved quality of Kerry Foods' portfolio contributed a 30 basis points increase in divisional trading margin to 8.8%. The underlying trading profit improvement was more than offset by the adverse currency movement and the business disposals resulting in a trading profit decrease of 6.7% to €117m.

In line with growth in snacking and 'food-to-go' trends, the division invested significant resources in expanding production and introduction of new processing technologies at the Attleborough and Ossett sites in Britain, Enniskillen and Portadown sites in Northern Ireland, and at the Shillelagh facility in the Republic of Ireland.

<sup>\*</sup> volume growth

With new entrants disrupting the traditional grocery model and blurring lines between 'food-to-go' and foodservice. the food and beverage landscape has remained intensely competitive.

In the UK branded sector, the meat snacks category continued to show good growth where 'Mattessons' recorded steady momentum, building its range across multiple channels. 'Mattessons Savagers' launched in 2015 continued to broaden the appeal of the category through extension of the brand to the young adults segment. The introduction of the 'Fire & Smoke' range to the UK cooked meats market proved highly successful in both the delicatessen and pre-pack cooked meat categories - inspiring new usage occasions for cooked meats.





2016 proved to be a challenging year in the UK sausage category as major retailers sought to compete with discounters through EDLP strategies. 'Richmond' remains the number 1 sausage brand and the successful relaunch of the 'Wall's' fresh sausage portfolio, with product and packaging improvements, contributed strong volume and value growth. The 'Wall's Ready Baked' range continued to drive growth in the convenient sausage segment.

The children's cheese snack sector grew by 11% year-on-year. 'Cheestrings' maintained its brand positioning in a competitive UK marketplace and successfully launched 'Cheestrings Scoffies' in September - extending the 'Cheestrings' snacking portfolio beyond the lunchbox occasion into an after-school snacking offering. The 'Yollies' children's yoghurt snack range recorded strong growth in the UK market in 2016. 'Pure' Kerry Foods' 'free from' brand continued to advance its positioning in the UK and Irish markets in 2016.







In UK customer branded segments, Kerry Foods maintained a strong performance in the prepared meals category, expanding its offering to the foodservice and 'direct-toconsumer' channels. Successful launches and innovation advanced customer positioning in the chilled meals sector. Introduction of 'health' lines in the frozen sector brought significant new customers to the category. The private label spreads sector proved extremely challenging due to consumer trends towards spreadable butter and growth of dairy-free spreads. A major investment programme at the Ossett (GB) facility was completed, creating a Centre of Excellence for production of spreadable butter through novel production technologies.

**READ MORE** Our Markets page 15





The children's cheese sector grew by 11% year-on-year

11%

In line with growth in snacking and 'food-to-go' trends, the division invested significant resources in expanding production and introduction of new processing technologies.

In Ireland, 'Dairygold' performed ahead of the market and successfully expanded into the growing butter category with the launch of 'Dairygold Softer'. The consumer trend away from traditional health offerings in the spreads category led to a decline in sales through the 'LowLow' brand. The 'Charleville' brand retained its brand leadership position in the cheese category. 'Cheestrings' continued to advance market development across mainland European markets.



'Denny' remains the number 1 meats brand in its core categories in the Irish market. The 'Denny Fresh Pack' was successfully launched in September, fulfilling shopper requirements for freshness and convenience. 'Fire & Smoke' continued to grow market share in the Irish market.

**READ MORE** Our Markets page 15



**READ MORE** Our Strategy pages 16-18

'Denny' remains the number 1 meats brand in Ireland

No. 1



#### STRATEGIC REPORT

#### **SUSTAINABILITY REVIEW**

# Securing sustainable growth









"Consumers are increasingly concerned with the origin of their food, how it is made and the impacts on those that help to produce it, and they continue to seek out companies and brands whose values align with theirs. This motivates many of our stakeholders to engage with companies that can meet these expectations. We welcome this growing interest in how companies operate and anticipate that our continued ability to demonstrate good environmental and social performance will be increasingly important in our future business relationships.

We are mindful of our dependence on natural ecosystems and the responsibilities we have to our customers, our suppliers, our people and our communities. The Group is committed to responsible business practice, as laid out in our Mission Statement, and our ongoing sustainability journey is an integral part of our 1 Kerry Business Model. In 2016, we have made good progress against our stated goals as we continue to integrate sustainability within our day to day operations. Our comprehensive 'Towards 2020' programme sets out a clear pathway for our business as we pursue our stated ambition of securing sustainable growth."

- Stan McCarthy, Chief Executive



At Kerry Group, sustainability is at the heart of our business. As a world leader in Taste and Nutrition and as a major consumer foods organisation in Europe, we are committed to the highest standards of business and ethical behaviour, to fulfilling our responsibilities to the communities which we serve and to the creation of long-term value on a socially and environmentally sustainable basis.

Our sustainability journey is one of continuous improvement, which aims to deliver a better future for all our stakeholders and is a significant driver of behaviour within our organisation.

#### **OUR APPROACH**

Kerry's sustainability plan represents a journey of continuous improvement - an ongoing process and strategy to secure was launched in 2015 and builds on the success of our previous initiatives. The programme is structured around four key pillars and aims to minimise our environmental footprint while enhancing the positive impact of the organisation. Under each pillar, we have prioritised the most material issues for Kerry Group and its stakeholders. We have carefully examined the ways in which we can lessen our adverse impacts and create value, and we have set measurable targets for improvement in these areas over a five year period.

READ MORE 'Towards 2020' page 45



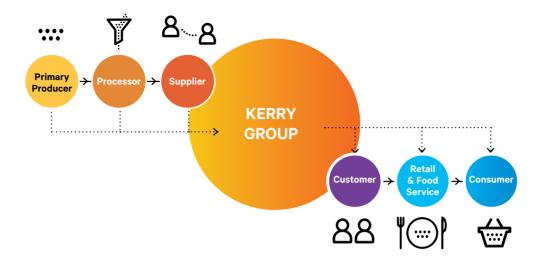








#### **OUR VALUE CHAIN**



#### **MATERIALITY**

Prioritising the most material sustainability issues for Kerry and its stakeholders is a central part of our strategy. In the development of our programme, we consulted widely with internal and external audiences to help refine our approach and to focus on critical areas of impact. The management of sustainability risk is undertaken by the Group's Sustainability Council and captured through the overarching risk management framework. We monitor emerging sustainability themes and continue to ensure the alignment of our strategy with business and stakeholder needs.

**READ MORE** Risk Report pages 60-68

#### STAKEHOLDER ENGAGEMENT

We are committed to an ongoing engagement that facilitates a better understanding of stakeholder needs and the ways in which we can address them. Among our key stakeholders are our customers, suppliers, employees, investors, local communities and regulatory bodies. We continue to track our engagement with all stakeholders and use this information to inform the assessment of our 'Towards 2020' programme, both in terms of materiality and performance. Our ability to demonstrate this level of engagement is a core part of our independent AA1000(AS) accreditation.

READ MORE Summary Assurance Statement page 46

#### **COLLABORATION**

Delivering sustainability at Kerry Group is a shared responsibility and each employee has a role to play in realising our ambitions for 2020 and beyond. However, we accept that the broader challenges presented by sustainability demand a more holistic approach. In addition to promoting greater internal cooperation, we are engaged in partnerships with customers, suppliers and relevant third parties to help achieve our 2020 goals. In the course of 2016, we have become members of a number of important multi-stakeholder initiatives.

**READ MORE** Responsible Sourcing page 50

#### **GOVERNANCE**

The Group's Sustainability Council has been established under delegation from the Board of Directors. It is chaired by a senior member of the Group's executive committee and reports twice yearly to the Board. The Sustainability Council is made up of functional leadership from across the organisation and its role is to assess the risks and opportunities presented by sustainability and to agree the means by which these should be addressed. The responsibility for implementation rests with the relevant functional leadership, while the Council appraises the ongoing Group performance.

FIND OUT MORE visit our website www.kerrygroup.com

## 1 Kerry Sustainability Programme - 'Towards 2020'

	ENVIRONMENT Climate / Efficiency / Waste	MARKETPLACE Quality / Sourcing / Nutrition	WORKPLACE People / Ethics	COMMUNITY Economic / Social
ASPIRATIONS	Continue to improve our environmental stewardship  Drive efficiency in resource use (energy & water)  Exceed in efforts to reduce waste and increase recycling  Deliver on our brand sustainability strategy plan	Through our focus on science and technology development, we will generate innovative products that contribute to improving health and wellbeing across all life-stages, creating better lifestyles for people today and future generations  Through our leading innovation and product development expertise, we will continue to enhance the nutritional value of our ingredients and continue to assist our valued customers  Make quality a distinguishing capability  Ensure responsible sourcing practices	Continue to conduct our business in a responsible and ethical manner and be an employer of choice  Through our Code of Conduct we will continue to provide a safe and healthy environment in which to work  Continue to embrace diversity and promote inclusion across the Group	Be a responsible neighbour by driving and supporting outreach initiatives in our local communities  Continue to partner with international programmes to help alleviate hunger in developing regions  Promote Kerry Community Lead Projects in each region
FIVE YEAR STRATEGIC PLAN	Achieve 100% ISO 14001 approval (Kerry manufacturing sites)  Achieve an overall 13% reduction in GHG emissions by 2020 compared to baseline year 2013, reflecting an overall 25% reduction compared to baseline year 2009  Reduce water use by 7% by 2020 compared to baseline year 2013, reflecting an overall reduction of 11% by 2020 compared to baseline year 2011  Reduce waste by 12% by 2020 compared to baseline year 2013, reflecting an overall 32% reduction compared to baseline year 2013.	Leverage Kerry's Taste & Nutrition technology platforms and applications expertise to improve nutritional values of food and beverage products in partnership with our customers  Deliver on our Kerry Foods' 'Better For You' Programme  Partner with our customers in sustainable sourcing of strategic ingredients. Achieve Kerry sustainable raw material sourcing targets across our raw material categories  Ensure our Supplier Code of Conduct is communicated to all direct suppliers  Ensure 100% of 'high risk' supply partners are formalised as members of SEDEX  Maintain Global Food Safety Initiative (GFSI) certification of all Kerry manufacturing sites	Drive ethical business practices and compliance to Kerry Code of Conduct  Ensure wages are competitive and all labour standards are fair, equitable and meet or exceed local guidelines  Embrace diversity across our workforce, our customer base and the communities we serve  Continue to improve Health and Safety metrics across all Group sites  Promote training and learning opportunities to ensure ongoing development	Assist and actively engage people in development programmes in our communities to improve: health and nutrition; entrepreneurship; community development; education, arts and sport; and sustainable agriculture  Assist NGO Partners with selected projects in the developing world  Develop Kerry Community Lead Projects in each region  Assist community development programmes in association with Kerry Vanilla Project in Madagascar
2017 GOALS	Achieve Group ISO 14001 approval targets for 2017  Implement Kerry Carbon Reduction Projects for 2017 in line with our 2020 targets  Implement Kerry Water Reduction Projects for 2017 in line with our 2020 targets  Implement Kerry Waste Reduction Projects for 2017 in line with our 2020 targets  Continue to advance our Origin Green Programme in Ireland	Implement Kerry Global Quality Management System (GQMS) and Kerry Foods Manufacturing Standard (KFMS). Certify all plants against an accredited Global Food Safety Initiative (GFSI) standard  Maintain SEDEX membership across all Group manufacturing sites  Maintain SMETA or equivalent certification across all Kerry developing market manufacturing plants  Support and partner with International Nutrition Research programmes  Achieve Kerry Foods' 'Better For You' Programme annual goals  Progress Kerry sustainable raw material sourcing objectives  Promote Health, Nutrition & General Wellness through Kerry's Nutrition Centre of Excellence and the Kerry 'Health & Nutrition Institute'  Continue to advance our Origin Green	Drive day to day business decisions through our defined Kerry Values  Achieve annual target for all Kerry employees to have completed the Kerry Code of Conduct Training through the Learning Academy  Ensure compliance with Global Health & Safety Management Systems  Achieve a further 5% reduction in recognised Global Health & Safety metrics across all sites  Promote diversity by building a workplace that is free of prejudice and actively fosters the appreciation of diversity throughout the organisation  Continue to advance our Origin Green Programme in Ireland	Formalise community engagement programmes in all our communities through Kerry Community Relations Committees and Community Relations Ambassadors  Share Community support best practices through 'Kerry Community Relations' site  Formalise support for employee philanthropy programmes  Continue to advance our Origin Green Programme in Ireland



Reduction in CO<sub>2</sub> intensity versus base year

-2.5%

Reduction in Water intensity versus base year

-2.7%

Reduction in Waste intensity versus base year

-10%

Reduction in Waste sent to Landfill versus base year

-35%

Food redistribution in the UK

175,000 meals

Performance versus ISO 14001 approval targets

98%



#### Listowel Natural Gas Project

With Kerry Group acting as the anchor tenant, the expansion of Ireland's national gas network to Listowel, Co. Kerry was announced in October 2016. Having made it commercially feasible for gas to be delivered to our flagship plant in the town, we have commenced plans for a gas fuelled Combined Heat and Power Plant, which will significantly reduce the plant's carbon footprint by 2020. In addition to the benefits for our own operations, by facilitating the supply of natural gas to Listowel, Kerry Group has also helped to make a cleaner source of energy available to other local businesses and homeowners.



## **ENVIRONMENT**

As an industry, food and beverage is acutely reliant on natural ecosystems and the increasing impact of man-made activities must be a key concern. Changes brought about by climate change, resource scarcity and access to water will all impact on business. To help ensure good environmental stewardship within our operations, the Group's Environmental Policy sets out our core goals for managing impacts at site level and we have significantly advanced the implementation of recognised environmental management systems across our manufacturing sites.

#### **EMISSIONS**

Green House Gas (GHG) emissions reduction remains a priority for Kerry Group. We measure our footprint in accordance with the GHG Protocol (see note 1) and use the services of an independent third party, Jacobs, to provide assurance on our carbon measurement and performance. This assurance is provided in accordance with AA1000AS(2008) (see summary assurance statement below). We also participate in the annual CDP assessment on behalf of investors and a number of customers. In 2016, we received a rating of A- from CDP, which places Kerry in a leadership position for our efforts to tackle climate change and recognises our implementation of current best practice.

Despite some strong regional performances in 2016, we have faced challenges in achieving our 2016 carbon target for the Group. This is due, in part, to the phasing of capital projects intended to deliver the required carbon savings. However, we remain fully committed to meeting our 2020 goal of a 13% reduction and we are confident that the current programmes, both planned and initiated, will deliver against our overall target.

Carbon	2013 Base Year	2020 Target	2016 Target	2016 Performance
Co <sub>2</sub> per Tonne FG*	320.18kg	278.56kg	308.07kg	312.18kg
% Change	_	-13%	-3.8%	-2.5%

<sup>\*</sup>Novem Adjusted

#### Notes

- The GHG Protocol sets the global standard for how to measure, manage and report greenhouse gas emissions.
- 2) Kerry Group's KPI on Carbon is a relative measure of CO<sub>2</sub> divided by Tonnes of Finished Goods.
- 3) Our measurement and target performance is of Scope 1 & 2 emissions from our manufacturing facilities (this accounts for 98% of Kerry Group's Scope 1 & 2 emissions).
  - Scope 1 emissions consist of fuel and fugitive emissions. No process emissions are generated from Kerry's activities.
  - b. Scope 2 emissions consist of electricity consumption by sites.
- 4) Kerry Group's actual performance has been adjusted to reflect like-for-like performance to our baseline year. We use the Novem Methodology for carbon reporting to adjust our baseline target reduction number in order to account for changes to product mix that have had a material effect on carbon intensity.
- 5) The Novem Methodology predicts what the absolute GHG emissions for the production of a group of products would be if the base year emissions per tonne were applied to today's production levels and product mix. This allows a meaningful comparison between two production periods based on improvements in the emissions per tonne for each product group. The Novem procedure applies only where targets are relative and Kerry Group measures GHG emissions on a CO<sub>2</sub> per tonne of output basis.
- 6) CDP is an international non-profit working with business, investors and governments to help manage environmental risk and drive emissions reduction.

#### JACOBS SUMMARY ASSURANCE STATEMENT

Jacobs has assured Kerry's greenhouse gas performance data (scope one and two emissions) from its manufacturing facilities for 2016 in accordance with AA1000AS (2008). Jacobs evaluated the systems and processes used to collate and report the greenhouse gas performance data. Jacobs has been able to obtain a moderate level of assurance for the data reported in the Group Annual Report 2016. Jacobs full assurance statement can be found on Kerry's website **www.kerrygroup.com** 



#### WATER

At Kerry we recognise the importance of water for our business and acknowledge the increasing global concerns regarding water risk. As a Group, we are focused on the quantity of water used at our sites and the quality of any waste water returned to the environment. Between 2011 and 2014, the Group achieved a 4.2% reduction in water intensity and in 2015 set a goal for a further 7% reduction by 2020. In 2016, we have continued to make progress with a 2.7% reduction versus our base year. Although this is slightly behind target, we remain on track to deliver against our 2020 goal.

Water	2013 Base Year	2020 Target	2016 Target	2016 Performance
m³ per Tonne FG	4.89	4.55	4.72	4.76
% Change	-	-7%	-3.5%	-2.7%

#### Notes

- 1) Our target for water is a relative measure of metres cubed (m³) divided by tonnes of product produced
- 2) Our target performance is water usage at our manufacturing facilities
- 3) Our actual performance has been adjusted to reflect like-for-like performance to our base year

In 2016, we also undertook to examine our manufacturing base to identify where our sites are operating in areas of potential water scarcity. Using a methodology based on the World Resources Institute's 'Aqueduct' tool we have identified 9 priority sites across the Group as outlined below. In 2017, we will continue to work towards improving water stewardship with a particular focus on these locations.



#### Water reduction at St. Claire (Canada)

As part of a World Class Operations Management initiative at our site in St. Claire, Canada, a water reduction team was established to look at ways to reduce the site's water consumption. Using a defined methodology, the team identified areas of water loss and improved ways of working that resulted in an annual water saving of over 32,000m3.

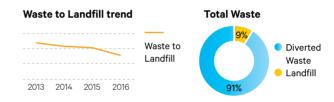
#### WASTE

We want to prevent the loss of valuable natural resources and are continuously looking at ways to minimise our waste. Between 2011 and 2014, we achieved a 20% reduction in waste intensity and in 2015 set a target for a further 12% reduction by 2020. In 2016, we have made good progress against this target with a 10% reduction versus our 2013 base year and ahead of our year 2 target.

Waste	2013 Base Year	2020 Target	2016 Target	2016 Performance
Kgs per Tonne FG	103.62	91.19	94.39	93.67
% Change	-	-12%	-9%	-10%

#### **Waste to Landfill**

Where we do have waste streams, we look for opportunities to turn this waste into a resource. We aim to achieve Zero Waste to Landfill by 2020, (where technically feasible) and by year end 2016 had reduced our landfill volumes by 35% versus our 2013 base year.



#### Notes

1) Our target is a relative measure of waste divided by tonnes of product produced.



#### Focus on food waste (UK & Ireland)

In 2015, Kerry Foods commenced its partnership with FareShare in the UK to redistribute surplus food to those in need. Over the course of 2016, this has evolved into a successful relationship that has seen Kerry Foods expand its donations to an additional two FareShare Regional Centres and donate enough surplus food for 175,000 meals. In Ireland, Kerry Foods has partnered with the Heart to Hand Charity for the past two years. In addition to supporting them through the donation of surplus food, in 2016 our employees have helped raise funds to meet their transport needs. Over the course of our partnership with Heart to Hand, Kerry Foods has donated 144,000 meals to those in need within our local Irish communities.

#### **ENVIRONMENTAL MANAGEMENT SYSTEMS**

Our target for 2020, is to have all our qualifying sites accredited under the ISO 14001 environmental management system. By year end 2016, the sites within our Consumer Foods Division, and sites within the EMEA and APAC regions of our Taste & Nutrition business have been fully accredited. Within the Americas region a number of sites, some of which have been more recently acquired, continue to work towards accreditation. The implementation of ISO14001 will be rolled out across these sites with targeted completion by year end 2017.



Spend on Research,
Development & Application
in 2016

€261 million

Categories targeting more responsible sourcing

10

Kerry manufacturing sites with GFSI certification

99%

Kerry milk suppliers within an accredited farm level sustainability programme

99.5%

Kerry manufacturing sites with SEDEX membership

100%

Kerry developing region sites with SMETA or equivalent certification

100%



## **MARKETPLACE**

At Kerry Group, we realise that our impacts extend beyond our direct operations, both in terms of the raw materials we use and the final products which we produce. We see significant opportunity in meeting the increasing demand for healthy and sustainably produced goods, while acknowledging the challenges presented by demographic trends and environmental pressures. Through our activities under the Marketplace pillar, our Taste & Nutrition solutions and Consumer Foods' brands are helping to support the transition to healthier and more sustainable consumer diets.

#### **HEALTH & NUTRITION**

Non-communicable diseases are responsible for almost 70% of deaths worldwide and unhealthy diets have been identified as one of four primary risk factors in contracting such conditions. Given the growing awareness of the link between diet and health, Kerry Group is ideally placed to support customers and consumers as they look for great tasting, healthier products.

As the world's leading Taste & Nutrition company, we are uniquely positioned to support our industry partners in creating and adapting products to satisfy changing consumer preferences and regulatory requirements. We understand that without making products taste great, more nutritious alternatives may not be adopted. Our holistic approach to product development encompasses our expertise in dietary requirements, the most comprehensive portfolio of Taste & Nutrition solutions, our applications expertise and an understanding of local consumer attitudes to health and wellness.

**READ MORE** Our Strategy pages 16-18

In 2016, we continued to deepen our engagement in this area through the Kerry Health & Nutrition Institute, which is establishing itself as a thought-leader on the science and policy of health, nutrition and general wellness. We also continue to invest in new technologies and in 2016 our global spend on Research, Development and Application increased to €261 million.

**READ MORE** Business Reviews pages 33-41



#### KERRY FOODS' 'BETTER FOR YOU' PROGRAMME

Nutritional Improvements 2016



Kerry Foods' 'Better For You' Programme aims to improve existing products and develop new ones that can contribute to a healthy balanced diet and lifestyle. The primary focus of our 'Better For You' programme is to reduce calories, saturated fat, and sodium, and add positive nutrition as appropriate without compromising on taste. A strong scientific foundation underpins our reformulation priorities.

Following on from our participation in the UK Public Health Responsibility Deal, key reformulation achievements in 2016 have included a 22% reduction in sodium in the UK sausage category. With regard to new product development, the Yollies range was successfully extended. Yollies are categorised as non HFSS (high fat, sugar, salt) under the UK Department of Health nutrient profiling scheme. Yollies are also a source of calcium and vitamin D. Cheestrings mini portions were also launched in 2016 in keeping with our policy of aiding portion control. In Ireland, Kerry Foods was one of 14 major food and drink manufacturers who participated in the FDII (Food and Drink Industry Ireland) Reformulation project published in 2016. This project assessed the impact of reformulation activity by the 14 companies between 2005 & 2012 and among the reported achievements was a 36% drop in tonnage of sodium sold over that period. Building on previous reformulation achievements, Kerry Foods continues to explore new technologies to achieve further reformulation across our portfolio.

We see significant opportunity in meeting the increasing demand for healthy and sustainably produced goods.





#### Kerry Health & **Nutrition Institute**

The Kerry Health & Nutrition Institute provides information on scientific research and communicates the latest developments in nutrition, science and health, to highlight nutritional advancements in food and beverage product development.

Supported by a Scientific Advisory Council, the Institute promotes and develops technologies that meet consumer needs as they seek to pursue healthier diets and lifestyles, and brings industry leading insight to the science and policy of health, taste, nutrition and general wellness. The Kerry Health and Nutrition Institute also allows Kerry to engage with other thought leaders in the fields of food science, academic research, government policy and the food industry.

In 2016, as well as becoming a platinum sponsor of the World Congress of Food Science and Technology, the Institute produced 9 white papers and 15 blogs, published by 20 leading health and nutrition experts. It also saw 14,000 unique visitors from 135 countries visit the Institute's website, logging more than 20,700 individual sessions.

#### FIND OUT MORE ONLINE

#### **QUALITY & FOOD SAFETY**

Kerry is committed to excelling in the provision of the highest quality products and to ensuring the complete safety of all the goods which we produce. We mitigate food safety risk through thorough proactive risk assessment with a farm to fork review. We incorporate robust preventive controls, sanitation excellence, product protection, crisis prevention, and we continuously improve through horizon scanning and embedding best practices. We work with recognised assurance standards such as the Global Food Safety Initiative (GFSI), an industry-driven initiative that reduces food safety risks by delivering equivalence between effective food safety management systems. We leverage this platform to ensure food safety, compliance with quality standards and to create value for our customers. In 2016, 99% of our global sites were accredited under GFSI standards.

In 2016, 99% of our alobal sites were accredited under GESI standards

FIND OUT MORE visit our website www.kerrygroup.com

We work with our customers, suppliers and industry partners to build more sustainable and resilient supply chains.

#### **RESPONSIBLE SOURCING**

We source a wide range of raw materials from independent suppliers around the world and as a responsible buyer, we want to understand the origins of these products and how they are produced. We aim to ensure that those involved in their production are treated fairly and that human rights are respected. We also want to minimise the environmental impacts associated with the production of key commodities and work with our customers, suppliers and industry partners to build more sustainable and resilient supply chains.

#### SUSTAINABLE AGRICULTURE

As part of our responsible sourcing strategy, we have identified 10 raw material categories that are of strategic importance to our business and where we want to increase the quantity of sustainably sourced raw materials. Although we do not own or operate any farms, we want to leverage our purchasing power to support improved production practices and work in partnership with industry stakeholders to encourage continuous improvement at farm level.

> Dairy Meat Palm Oil Cocoa & Coffee

Vanilla

Citrus

Herbs & Spices

Fruit & Vegetables

Sugar & Molasses

Paper Packaging



**READ MORE** Sustainable Vanilla in Madagascar page 59

To complement our membership of relevant multi-stakeholder platforms such as RSPO, Origin Green and the Sustainable Agriculture Initiative Platform (SAI), in 2016 Kerry Group also became a member of the Sustainable Spices Initiative, Tropical Forest Alliance 2020 and the Sustainable Vanilla Initiative. These platforms align with our responsible sourcing strategy and through them we are pursuing a more collaborative engagement with stakeholders, creating the basis for a common approach to sustainable sourcing.

READ MORE 'Towards 2020' page 45













**READ MORE** Focus on Palm Oil page 51



#### Focus on palm oil

In 2016, Kerry Group published a Palm Oil policy setting out its objectives for the responsible sourcing of this important commodity. The Group has been a member of the RSPO since 2010 and fully endorses the principles and criteria it has laid out. We are actively engaging with suppliers to understand and address any challenges and to ensure compliance with our clearly defined sourcing requirements. In 2016, we made progress in terms of traceability for both our palm oil and palm kernel oil volumes.

#### Palm Oil Traceability



Total Volume 100%

Palm Kernel Oil Traceability



Total Volume 100%

Within our Consumer Foods division. all of our 2016 volumes are covered by RSPO certification systems. In 2017, we will adopt the use of RSPO Next Credits as we continue to transition to fully certified sustainable palm oil within our Kerry Foods business.

FIND OUT MORE For more information on

#### **SOCIAL COMPLIANCE**

Kerry is committed to upholding the rights of workers and through our membership of the Supplier Ethical Data Exchange (SEDEX) we can demonstrate our performance on labour issues to our customers. All our manufacturing locations are registered with SEDEX and we have valid SMETA (SEDEX Members Ethical Trade Audit) audits covering all of our sites in 'high risk' locations.



In 2016, the Group's 'Supplier Code of Conduct' was updated, to clearly set out our expectations of suppliers in upholding the rights of workers within our supply chain. It explicitly prohibits the use of child or forced labour in any activities connected with Kerry Group, and sets forth the detailed standards to which our supply partners must adhere. In monitoring supplier compliance with this Code of Conduct, we have adopted a risk-based approach to assessment that focuses on those suppliers operating in geographic locations, and/or producing commodities, where there is a greater risk of non-conformance. Having mapped our supplier risk in 2016, our revised goal for 2020 is to have all high risk suppliers registered as members of SEDEX.

#### MARKETING AND COMMUNICATIONS

In addition to creating healthy and sustainable products, we want to ensure that these are marketed responsibly. We are passionate about promoting the real value of food but we recognise that we must carefully consider how we communicate this, with particular attention given to the status of children. All our advertising and brand positioning conforms to national advertising codes of practice. We provide on-pack nutritional labelling and additional information services e.g. brand websites, to help consumers make informed choices. The Group has established best practice guidelines for nutritional labelling across our portfolio, in line with 'Food Information to Consumers' legislation. In addition to mandatory labelling requirements, we support the voluntary addition of front-of-pack 'Reference Intake' information to aid consumer choice. We also employ customer enquiry lines which are manned by experienced teams who can help respond to any additional customer requests.

#### **ORIGIN GREEN**

As a founder member of the world leading 'Origin Green' initiative, Kerry is committed to An Bord Bia's (the Irish Food Board's) unique sustainability programme, which aims to make Ireland a global leader in sustainably produced food and drink. The programme operates at both processor and primary producer level and brings together all stakeholders under one initiative.

As part of our membership, Kerry has adopted a sustainability charter covering each of its manufacturing sites in the Republic of Ireland and has adopted the Sustainable Dairy Assurance Scheme (SDAS) as a mandatory standard for its contracted liquid milk suppliers. Under this internationally accredited scheme, we are determining the carbon footprint of each individual farm and supporting farmers with tools to help lessen their environmental impacts. At year end 2016, over 99% of farmers had signed up to participate in the SDAS programme and 85% were fully certified. By the 31st March 2017, all milk collected by the Group from farms in Ireland will come from SDAS approved suppliers.





FIND OUT MORE visit our website www.kerrygroup.com



23.000 employees

Health & Safety metrics

Diversity & Inclusion

## **Dedicated Strategy** Launched

and forced labour

Zero **Tolerance** 

In 2016 we achieved a further 9% improvement in global safety metrics

## **WORKPLACE**

As an organisation with over 23,000 employees, Kerry understands the importance of a positive relationship with its people. Our colleagues are central to our innovative culture and ongoing success. To retain their enthusiasm and determination to succeed we want each person to engage fully with our vision and values. To help achieve this we reward performance, provide opportunities to make a real difference, promote access to learning and development and create a workplace where each employee can flourish.

## At Kerry Group we aim to provide an environment where each employee can flourish.

#### **ETHICS**

Foremost among our values is that business results must be achieved ethically and legally. This will always be an absolute expectation at Kerry Group because our everyday actions are the basis of trusting, productive relationships with each other and with our stakeholders. Through our Code of Conduct, we set out a commitment to live our values and focus attention on ethical business practice. In 2016, we rolled out a new communications and training programme to colleagues on the Group's Code of Conduct.

Kerry remains a non-partisan organisation and Group businesses are prohibited from supporting political parties, either directly or indirectly. The Group or its constituent businesses do not make financial contributions to political parties, political candidates or public officials.

**READ MORE** For more details on all our policies and codes in relation to the workplace, please visit



#### **HUMAN RIGHTS**

As a business, we are committed to upholding international human rights and our Group policies are informed by relevant UN Guiding Principles and International Labour Organisation Conventions. As a Group, we prohibit the use of child or forced labour. All employment with Kerry Group is voluntary. We do not use child or forced labour in any of our operations or facilities. We do not tolerate any form of unacceptable treatment of workers and we fully respect all applicable laws establishing a minimum age for employment, in order to support the effective abolition of child labour worldwide.

In 2016, we continued to extend our standards on these and other labour issues into our supply chain, through our updated Supplier Code of Conduct. This code sets out the expectations we have of all those who seek to do business with Kerry Group.

**READ MORE** For further details on our policies around Human Rights and Business Ethics see www.kerrygroup.com

## We do not use child or forced labour in any of our operations or facilities and we do not tolerate any form of unacceptable treatment of workers.

Kerry Group has a range of processes and systems in place to manage compliance with the above requirements and also operates an Employee Concerns Disclosure Policy. Under this policy, employees with concerns about labour issues, or any other business practice, can report these freely through an appropriate independent channel.





#### **HEALTH & WELLBEING**

As a responsible business, we understand our obligation to ensure the health & safety of our employees at each of our sites. We have targeted a 5% year-on-year improvement in our Health & Safety Metrics and in 2016 we have surpassed this with a 9% improvement on our 2015 performance. In 2016, we also completed the rollout of our Global Health & Safety Management System, establishing consistent ways of working and standardising the Health & Safety requirements across the Group.

We also recognise that Kerry can play a role in employee wellbeing, beyond our Health & Safety goals. To have a broader impact on the lives of our employees, we want to support them in leading healthy, active lives. Right across the Group, we have introduced and promoted a range of initiatives at site level that seek to promote healthier eating, encourage regular exercise and draw attention to the importance of managing physical and mental wellbeing.



#### **LEARNING & DEVELOPMENT**

At Kerry we aspire to develop a culture of high performance and are committed to helping colleagues grow and develop. We believe in people with big ideas and want to encourage learning opportunities. Kerry's Learning Academy and our HR teams help to deliver structured training and development programmes for employees, through which they can acquire the skills, knowledge and capabilities necessary for further growth within the organisation. In 2016, we introduced the 'mySuccess' platform to provide a clearer connection between individual goals, performance, compensation and career development.





At Kerry we aspire to develop a culture of high performance and are committed to helping colleagues grow and develop. We believe in people with big ideas and want to encourage learning opportunities.







#### **DIVERSITY & INCLUSION**

The Group is committed to the principles of equality and diversity and has fully adopted all relevant equality and anti-discrimination legislation. We encourage and embrace differences in terms of education, experience, values and culture and recognise that to thrive globally requires a strong foundation of tolerance and the ability to develop and embrace a truly diverse workforce.

## We encourage and embrace differences and recognise that to thrive globally requires a truly diverse workforce.

In 2016, we launched a dedicated Diversity and Inclusion programme, to reflect and enable the commitments outlined above. As part of this programme, we are adapting our recruitment process to attract applications from those in underrepresented groups, we are focusing on the internal development opportunities available to all colleagues, we are creating more flexibility around working practices and we are creating a more inclusive environment through the promotion of participation opportunities inside and outside the organisation.

**READ MORE** Our People pages 20-21





#### **COMPENSATION & BENEFITS**

Compensation and benefits are a core part of our employee management strategy. We provide competitive rates of pay and ensure fair compensation practices across all our locations. Employees are rewarded in line with their individual and business performance and this includes their achievements against key sustainability metrics for relevant colleagues. Compensation forms a core part of the overall employee benefits package, which is tailored to help meet a variety of short and long term needs.

Employees are rewarded in line with their individual and business performance and this includes their achievements against key sustainability metrics for relevant colleagues.



Broad community engagement programme

# Five focus areas

Partnership with the World Food Programme

## **Project Leche**

IFPRI Report on the impacts of the RAIN Project

## **Published**

Food donated to those in need by employees in North America

10,000 Kgs

Kerry Group has a proud record of community engagement and support.

## **COMMUNITY**

With its roots in the co-operative sector in Ireland, Kerry Group has a proud record of community engagement and support. Since its foundation, the Group has contributed significant time and resources to initiatives and charitable causes in the regions where we operate and the philosophy of positive engagement with local communities continues to be a core value of the organisation.

Within local communities our primary areas of focus and support are as follows:



#### **HEALTH. HUNGER & NUTRITION**

As a company focused on Nutrition, we understand the importance of a healthy balanced diet across all life stages. Through our community programmes we are engaging in partnerships that aim to improve health, eradicate hunger, and promote better nutrition among some of the world's poorest communities.

#### **World Food Programme**

In 2016, Kerry proudly became the first Irish food company to partner with the World Food Programme (WFP), the food assistance branch of the United Nations and the world's leading humanitarian organisation fighting hunger. As part of a pioneering 3 year project, Kerry Group and the World Food Programme will ensure that nutritious dairy products are safely and sustainably incorporated into the Home Grown School Meals (HGSM) programme. The pilot project is based in Honduras, one of the poorest countries in Latin America. Over 65% of the Honduran population live in poverty and one in four children suffer chronic malnutrition due to recurrent natural disasters and the effects of climate change.

#### **Noon Foundation**

In 2016, the Group has also undertaken to support the Noon Foundation in building a new wing to the Noon Hospital in Rajasthan, India. The Noon Foundation was established by Lord Gulam Noon, founder of Noon Foods, a business that was subsequently acquired by Kerry Group in 2005. The 'Kerry Wing' of the Noon Hospital will significantly expand its ability to meet the growing demand for its services from the people of Rajasthan and Kerry is particularly proud that the hospital provides treatment for all those who need it, irrespective of their ability to pay.

#### **RAIN Project**

In partnership with 'Concern Worldwide' Kerry has been supporting efforts to alleviate child stunting in Africa. The award-winning RAIN (Realigning Agriculture to Improve Nutrition) project, was designed to improve infant and maternal nutrition and thereby reduce rates of child stunting in the Mumbwa district of Zambia. In 2016, an independent report was published by the International Food Policy Research Institute (IFPRI) on the impacts of the project. The report illustrates the challenges associated with addressing multi-faceted problems contributing to malnutrition and highlights the areas where the programme has enjoyed success. Having reviewed the findings, Kerry and Concern are now exploring how the learnings can be applied elsewhere and are finalising plans for a RAIN+ programme embracing climate smart agriculture to help alleviate malnutrition in Africa.





Photos: A group of SMF (small model farmers) attend an agriculture training session as part of Concern's RAIN programme. Catherine, 43, holds the aubergines she has grown. © Gareth Bentlev/Concern/Zambia

#### **ENTREPRENEURSHIP**

Through its daily activities and community development work, Kerry Group seeks to foster enterprise, innovation and development. We promote learning opportunities for young people through work placement programmes at our major corporate centres. Our responsible sourcing practices look to support smallholder farmers and much of our community development projects take place in rural areas, giving rise to local employment, supporting disadvantaged areas and promoting local enterprise. For example our support for Listowel Food Fair, which takes place in South West Ireland, promotes awareness of the quality food and beverage products made by local entrepreneurs.





#### **World Food Programme**



supporting



The World Food Programme (WFP) provides food assistance to 80 million people in over 80 countries on an annual basis. As part of its work, WFP provides school meals to more than 17 million children on average every vear. Through the Home Grown School Meals (HGSM) programme, WFP supports the healthy growth and development of children in some of the world's most vulnerable areas. As this may be the only nutritious meal a child receives each day, it can play a critical role in preventing malnutrition. This can also have a larger impact in terms of promoting sustainable development, as it encourages families to send their children to school and helps to keep them enrolled. Where possible the HGSM programme uses locally sourced produce from smallholder farmers. This helps to create a market for local produce and protects the livelihoods of rural communities.

In 2016, Kerry Group became a Corporate Partner to WFP. Our partnership, 'Project Leche' has 3 key objectives, namely:

- Improve the nutritional value of school meals by increasing the dairy component.
- Create a sustainable local milk supply with enhanced quality and quantity thereby providing market access for smallholder farmers.
  - Increase nutritional awareness amongst children, teachers and parents.

To achieve these objectives Kerry Group will share dairy expertise, supporting the local production of safe and sustainable milk-based products. Our experts in nutrition will identify how to improve the nutritional content of the local school meals programme by incorporating these dairy products. Finally, our direct financial support will enable WFP to deliver this pilot programme and to assess the potential for wider adoption of dairy within the HGSM programme.



Photos: WFP/Hetze Tosta

#### **COMMUNITY DEVELOPMENT**

At Kerry, our colleagues are acutely aware of the needs of their communities and many play an active role in giving back through local initiatives. In 2016, some of the employee activities across the Group have included environmental conservation efforts in the city of Cebu, Philippines, fundraising activities in Ireland, volunteering time to help disadvantaged children in Latin America, and food donations in the US. Our colleagues continue to generously support programmes designed to enhance their local communities through the donation of their time, expertise and resources. In 2017, we want to further support these efforts through the Kerry Volunteer Programme which will provide time off for community activities and encourage even greater local community participation among our employees.

At Group level, Kerry is also a key contributor to community development projects and among our commitments in 2016, was our support for the Irish Wheelchair Association's state of the art Resource and Outreach Centre in Killarney, County Kerry. We also provide support for a wide variety of community development initiatives across a broad spectrum, from Cancer Support Services to the Centre of Archaeology & Innovation.

#### **EDUCATION. ARTS AND SPORT**

2016 had historic significance for Ireland given the 100th anniversary of the events which led to the country's independence. Kerry marked the occasion through its involvement with the Thomas F Meagher Foundation. This ongoing programme encourages post-primary students to explore the meaning of Irish citizenship and an inclusive society, and invites them to participate in local community development initiatives. In 2016, seven Kerry Group sponsored University Scholarships were awarded to students with the leading community projects. We also continued to engage with local schools through open days and site visits and in December 2016, Kerry were delighted to sponsor the fifth edition of the International Eco-Schools Conference in Malaysia.

Our support for the Arts continues through our commitment to the National Folk Theatre of Ireland, our funding for 'Fleadh Cheoil Na Mumhan' and our sponsorship of the prestigious 'Kerry Group Award' for Irish fiction at the International Literary festival in Listowel, Co. Kerry.

We also continue to promote involvement with amateur sport and we are a proud supporter of Kerry GAA, the international cycling race Kerry Group Ras Mumhan, and the Denny Children's Community Games.





#### SUSTAINABLE AGRICULTURE

Many of our initiatives under the 'Towards 2020' programme overlap between pillars and this is particularly true of our efforts on Sustainable Agriculture. Our partnership with WFP, the RAIN project, Origin Green, all of these initiatives are based around sustainable agricultural principles. Under the Marketplace pillar (page 45), we have already highlighted the importance of sustainable agriculture in terms of our responsible sourcing strategy, but our efforts are also particularly important for local communities.

READ MORE 'Towards 2020' page 45





#### Sustainable vanilla - Madagascar

In early 2014, Kerry Group partnered with our local vanilla supplier in Madagascar to build a more sustainable supply chain. Together we have set up the 'Tsara Kalitao' Project, which translates as 'Good Quality' in Malagasy. At its core it focuses on training farmers to produce better quality vanilla beans and increase their income. However, the broader programme is designed to support the sustainable development of the region. It does this through three elements, Farmer Income, Empowering Women and Education. In addition to directly supporting farmers, through our pilot programme on education we currently reach more than 1,000 children in the project region.

On successful completion of this pilot, the programme will be rolled out across all participating villages with the potential to positively impact up to 5,000 children and their families by 2018.



### **RISK REPORT**

## **Effective Risk Management**

Our risk management framework ensures that robust processes exist to identify and effectively manage risks so that Kerry can continue to grow profitably.

Kerry have identified a number of risks which, if they arise, could potentially impact the reputation of the Group and the achievement of its strategic objectives. It is the responsibility of the Board to determine the nature and extent of the risks it is willing to accept in pursuit of achieving its strategic objectives. The Group's diversity in terms of geography, manufacturing footprint, as well as its broad portfolio of customers and products, helps reduce the impact that any one risk can have. However, all risks must be monitored and managed to ensure that the potential impact remains within the acceptable level of tolerance to achieve a profitable return for shareholders.

#### KERRY GROUP RISK MANAGEMENT FRAMEWORK

The Group's risk management framework is designed to identify, manage and mitigate potential risks which may have a material impact on the achievement of the Group's objectives and is outlined in the diagram below. The Board have implemented appropriate governance structures to ensure that there is clarity of ownership and responsibility for risk management throughout the Group.



monitoring

**READ MORE** Governance Structure page 80

#### **Board of Directors**

The Board owns the risk management and internal control systems and is responsible for ensuring that the risk appetite and risk tolerance are appropriate. It has also set the tone that defines the culture, values and expected behaviours of the organisation through the development of the Group Code of Conduct. A framework has been designed to allow the Board to delegate responsibility for day-to-day management of risk to Executive Management including ensuring that appropriate mitigating procedures exist for each of the principal risks.

As part of the risk management programme, during 2016, the Board also considered how the potential impact of the Group's principal risks and uncertainties may impact the going concern and longer term viability of the Group. The conclusions of this assessment are outlined on page 68.

#### **Audit Committee**

Under delegation from the Board, the Audit Committee assesses the overall risk profile of the Group and evaluates the design and effectiveness of the risk management and internal control systems. This includes reviewing reports received from Internal Audit, the Group External Auditor and management on the operation of material financial, operational and compliance controls during the period under review.

A detailed description of the activities carried out by the Committee for the year under review is outlined in the Audit Committee Report on pages 83 to 87.

#### **Risk Oversight Committee**

The Risk Oversight Committee (ROC) is chaired by the Chief Financial Officer and comprises of senior business management. The ROC supports the Audit Committee in the risk management process through ongoing monitoring and evaluation of the risk environment and ensuring continuous improvement of the effectiveness of risk mitigation activities.

Responsibility for the Group risk assessment process is owned by the ROC who maintain the Group risk register and report changes in the Group's principal risks and uncertainties to the Audit Committee on an annual basis. This process is described in more detail on page 61.

A schedule of presentations on the principal risks and uncertainties is defined at the start of the year and is a regular agenda item at Board and Audit Committee meetings where members of the ROC, or nominated functional leadership, present on these risks. Increased time was allocated for risk presentations on the Board agenda in 2016. These presentations and subsequent discussions assist the Directors in assessing the potential impact of risks to the Group's strategy and operations as well as the effectiveness of existing controls and any proposed future internal controls.

#### **Executive Management**

Executive Management are responsible for ensuring that internal controls are operating effectively to manage the principal risks and uncertainties on a day-to-day basis. The "three lines of defence" model as set out below ensures that accountability for risk management is embedded into the Group's processes and procedures.

A number of management committees have also been established to support risk management initiatives across key functional areas including; the Group Finance Committee, the ICT Security Steering Group, the Sustainability Council and the Global Health, Safety and Environmental (HSE) Leadership Team.

#### Three Lines of Defence

The Group operates a three lines of defence model to ensure that there is a clear delegation of responsibility for the management of risk and that communication of the risk agenda is effective.

#### 1st Line of Defence

The first line of defence are Operational Management who have responsibility for maintaining an effective risk management and internal control environment and for executing control procedures on a day-to-day basis within their sites or business units. They are also responsible for proactively ensuring compliance with Group policies and procedures. By embedding risk management into standard ways of working it ensures that potential risks are identified at an early stage, escalated as appropriate and controls are established to manage these risks.

#### 2nd Line of Defence

The second line of defence are oversight functions, including Group compliance and functional leadership teams, who in conjunction with management are responsible for monitoring the operation of internal controls on an ongoing basis. They

are also responsible for providing support and expertise to Operational Management with regard to the management of specific risks and the design of internal controls. Examples of tools employed for continuous monitoring include; monthly performance reviews, functional audits, internal control self-assessment questionnaires and ICT security monitoring.

#### 3rd Line of Defence

Internal Audit and external professional advisors are responsible for providing independent assurance to the Audit Committee and the Board on the adequacy and effectiveness of the risk management and control frameworks operated by the 1st and 2nd lines of defence. As part of its annual programme of work, Internal Audit conduct regular reviews of risk management processes and give advice and recommendations on how to improve the overall control environment.

#### **RISK ASSESSMENT PROCESS**

The Group's risk assessment process is a co-ordinated bottom-up and top-down Group wide approach that facilitates the identification and evaluation of risks as well as assessing how the risks are monitored, managed and mitigated. This process, which is facilitated by Internal Audit and overseen by the ROC, begins with bottom-up input from management across all divisional and functional areas who, through a programme of workshops, perform a detailed risk review exercise to update the Group Risk Register.

During these workshops all existing strategic, operational, financial and compliance risks are considered along with potential new and emerging risks at a business and functional level throughout the Group. In assessing the potential impact and likelihood of each risk identified, management evaluate the risks at a residual level after existing internal controls have been considered. A standard risk scoring matrix provides guidance on impact and likelihood to ensure consistency in reporting.

The divisional and functional risk registers are consolidated to identify the principal risks and uncertainties for inclusion in the Group risk register. Executive management review and validate the results of this process providing further input where

necessary. The ROC then review the Group Risk Register and submit it to the Audit Committee for approval.

The interaction and relationships between risks is considered and discussed. It is acknowledged by management and the Board that the risks do not always exist in isolation and that the crystallisation of more than one risk at the same time could have a significant impact on the Group.

The Audit Committee and Board formally approved the Group risk register and have confirmed in the Corporate Governance Report that a robust assessment of these risks was completed including those risks which could threaten the business model, future performance, solvency or liquidity of the Group. Throughout the year, the Board consider the appropriateness of the strategies and actions to address these risks in pursuit of the Group's strategic objectives.

#### **RISK APPETITE**

The Kerry Group Board of Directors consider and assess risks in three broad categories namely; strategic, operational and financial & compliance. As a Taste & Nutrition and Consumer Foods business, the Board has a low risk appetite for risks which may impact the Group's reputation or brands in the financial & compliance or operational areas such as product quality, health & safety and compliance with laws and regulations etc. However, in pursuit of strategic growth objectives the Board understands that there is a trade-off between risk and reward in making certain strategic investment decisions e.g. emerging market expansion, acquisitions or capital investments and a higher level of risk may be accepted in these areas.

Through the risk management framework all strategic investment decisions are approved by the Board. These are supported by documentation and presentations, along with senior management input to ensure that the risks associated with each transaction are fully understood and accepted.

#### PRINCIPAL RISKS AND UNCERTAINTIES

The following table describes the principal risks and uncertainties that have been identified by the Board, the mitigating actions for each and an update on any change in the profile of each risk during the year. The Board has determined that these are the principal risks and uncertainties which could impact the Group in the achievement of its objectives and additionally, each risk has been linked to the Group's strategies as outlined in the Business Model on page 14.

This table presents the Board's view of the Group's principal risks and uncertainties and does not represent an exhaustive list of all the risks that may impact the Group. There are additional risks which are not yet considered material or which are not yet known to the Board but which could assume greater importance in the future.

#### RISK TREND KEY



Risk is unchanged



Risk has increased



Risk has decreased

Link to Strategies as per Business Model Report page 14













Taste Nutrition &

**General Wellness** 

Foods

Developing Markets

Sustainability

Risk Description and		Risk Trend and
Potential Impact	Mitigation	Link to Strategy

#### Strategic Risks

#### Portfolio Management

As a global organisation operating across many countries / regions demand for products is impacted by a range of factors including economic, demographic, technology and competitor actions. The Group must also meet the needs of the "new consumer" who is seeking the latest trends in health and wellness.

Successfully achieving growth targets is dependent upon managing the portfolio of customers, technologies and channels along with ensuring the Group maintains its agility to respond to market changes. The ability to strategically evaluate and respond to a dynamic marketplace is a key priority for the Group, as failure to do so could have an adverse impact on future performance.

The Group's business model, strategy and operational activities are reviewed and approved by the Board on an ongoing basis to ensure that the Group is responding effectively to changing consumer trends and markets.

As described in "Our Markets" on page 15, the Group continually invests in "Consumer and Market Insights" which allows it to leverage technical and manufacturing capabilities to support a tailored and commercially effective go to market structure. This process is supported by a team of senior, experienced executives with oversight from the Board. The positioning of the Group as a Taste & Nutrition business allows Kerry to take advantage of the evolution of health, wellness and nutrition trends in all markets to secure growth opportunities. The Group continues to invest in its e-commerce platform to ensure it is aligned to market trends in this area.

Kerry Foods has repositioned its portfolio to align with evolving geographical, retail, channel and e-commerce market opportunities.



The board considers that this risk is broadly in line with the prior year.









#### Strategic Risks

#### **Business Acquisition and Divestiture**

Acquisitions and divestitures continue to be a core element of the Group's growth strategy. There is a risk that the anticipated benefits of such transactions are not delivered resulting in a delay in the delivery of the expected return on investment and a subsequent impact on the strategic development of the Group.

A failure to deliver on anticipated benefits may occur due to; an inaccurate evaluation of the target business, an over estimation or failure to achieve expected synergies, poor management of the transaction, poor planning and implementation of the integration or the transaction not adding shareholder value as expected.

Board approval is required for all transactions and regular updates are presented to the Board on potential targets including strategic evaluations of any proposed significant investments. This includes an assessment of their ability to generate the required return on investment and a review of their strategic fit within the Group.

The Group has developed significant experience and capabilities in this area and has a successful track record. A clearly defined process is employed to ensure that the evaluation of a target is comprehensive and that the execution of the acquisition is effective. A similar process is implemented for the execution of divestitures.

A strong governance system is in place to oversee the integration process for acquisitions including the appointment of a senior business owner supported by a team of appropriately skilled personnel to monitor the integration project and to review the performance of the acquired entity.

Post-acquisition reviews are conducted by senior management, the results and learnings of which are presented to the Board as a regular agenda item.

The Group talent management programme ensures that the retention of key acquired talent is a focus of the integration process and where necessary the acquired entity management team is strengthened by the transfer of experienced Kerry management.



Given the ongoing focus and governance at Board level and the extensive experience of the senior management team in this area the Board consider that this risk has decreased.









#### Strategic Risks

#### **Geopolitical Risk**

As Kerry operates in many jurisdictions and continues its expansion in developing markets it is exposed to external factors which may affect the results of the Group or disrupt its supply chain. These factors include a complex and evolving legal and regulatory environment as well as political instability, currency volatility, the impact of tariffs and duties and varying standards of quality and security.

Macro-economic uncertainty also exists around the impact of the United Kingdom's exit from the European Union as the longer term implications of this decision remain unclear and it cannot yet be fully determined how this may impact the Group.

The diversity of countries in which the Group operates ensures that it is not overly exposed to any one particular geography. Experienced management with local and regional expertise support the Group in understanding how business and commercial transactions are conducted in each country / region.

The Group's legal, regulatory and compliance structure ensures that applicable laws and regulations are complied with. This is supported by the Group Code of Conduct which outlines how Kerry expects to conduct business in

Senior management regularly review the performance and trends of KPIs for markets and geographies against strategic objectives to ensure that future decision making is reliably informed.

Group policies require businesses to hedge transactional currency exposures and long term supply or purchase contracts which give rise to currency exposures.

A senior management team has been established to assess the impact of various scenarios which may arise as a result of the United Kingdom's decision to exit the European Union. Whilst the eventual outcomes are unclear, planning is underway for different scenarios including the potential effects of each. These plans will be updated on an ongoing basis as greater clarity emerges. However given our well established manufacturing footprint both in the UK and across Europe, the Group is well positioned to deal with the potential challenges and opportunities as they emerge.



Given the current political and macro-economic environment the Board believe this risk has increased.





#### **Operational Risks**

#### **Quality and Food Safety**

Failure to maintain the quality and safety of our products could expose the Group to product liability claims, product recalls, customer complaints, litigation or non-compliance with food safety legislation, including the FDA Food Safety Modernisation Act in the USA. This may have an impact on customer relationships and lead to reputational or financial damage to the Group.

A Global Quality and Food Safety structure has been established providing leadership in key areas such as Hazard Assessment and Critical Control Points (HACCP), global supply quality and crisis management. A global steering committee ensures that a culture of quality exists and best practices are implemented across the organisation.

A Global Quality Management System (GQMS) is in place to support the Group's manufacturing and supply chain functions through robust policies and procedures as well as training to defined Kerry working standards. This ensures that quality assurance procedures are embedded into operational processes. Both internal, supplier and customer KPIs are monitored and a continuous improvement culture is in place to address issues as they arise.

Kerry manufacturing sites are subject to regular audits by internal teams, customers and independent bodies auditing against recognised global food safety standards. The supply quality team, in conjunction with the procurement function, operate strict controls to ensure that raw materials are sourced from approved vendors and meet Kerry's standards.

Adequate product liability insurance is maintained across the Group.



The board considers that this risk is broadly in line with the prior year.





#### **Raw Material and Input Cost Fluctuations**

The Group's cost base and margin can be impacted by fluctuations in commodities, freight, energy, labour and other input costs. These fluctuations can be influenced by Global supply, weather events, political decisions or changes in regulations. As we move into an inflationary period and given increased competitive pressures in the market place an inability to pass on cost increases to customers may impact the Group's margins.

The Group maintains a strong commercial focus on procurement, pricing and cost improvement initiatives to manage and mitigate this risk and all global commercial teams have been trained in margin management principles.

Major commodity exposures are monitored on an ongoing basis and an active risk management approach is in place which includes taking purchasing cover on a back to back basis depending on the category of sales contracts. Contractual mechanisms are in place with many customers to "pass through" changes in commodity prices.

The Group employs experienced purchasing and commercial managers to ensure that all input costs are clearly understood and reflected in the pricing of our products.

Monitoring is in place to identify any potential exposures by commodity type and business and detailed margin reporting by customer, product and business ensures that commercial teams maintain an ongoing focus on performance in this area.



As commodities move into an inflationary period, the Board consider that this risk has increased.





#### **Operational Risks**

#### **Talent Management**

The ongoing success of the Group is dependent on attracting, developing, engaging and retaining qualified, experienced and appropriately skilled employees. An inability to secure and build a resilient talent pipeline could impact the Group's ability to achieve its strategic objectives.

An integrated talent management framework is in place to assess and plan for people development through talent reviews and critical role succession planning. This includes a continued focus on talent sharing, recruitment, mobility, and retention of key acquired talent. There is also a strong graduate recruitment programme in operation which supports the Group's succession planning programme. There is a continued focus on the diversity of our talent pipeline and building local talent in developing markets.

The Group operates a Global Learning Academy focused on leadership, commercial and functional capabilities to support the professional growth of employees at all levels both in current and future roles.

The Global Mobility team supports the deployment of key talent as they move within the organisation.



The board considers that this risk is broadly in line with the prior year.





#### ICT Systems, Security and Cybercrime

The Group's operations are increasingly dependent on IT systems and the management of information. A failure of a critical system or the unavailability or inaccuracy of key data may disrupt operations and impact our ability to serve customers.

Cybercrime, including unauthorised access to information systems, may result in confidential data being accessed leading to loss of Intellectual property and the potential erosion of the Group's competitive position. Inadequate security controls surrounding banking or treasury systems could also result in the loss of cash assets.

An ICT Security Steering Group has been established to provide governance and ensure that resources are being correctly utilised to prevent critical system failures and protect the Group's assets.

During 2016, a project commenced to review ICT business continuity planning to ensure that the processes in place are sufficient to meet the current and future needs of the Group.

An ongoing security enhancement programme is in place which includes deployment of additional layers of protection on intrusion prevention, document control and identity management.

During the year there has been an ongoing focus on raising the awareness of all employees in the area of ICT security.



Globally reported incidents of cybercrime are increasing as are levels of persistence, sophistication and organisation so the Board believes this risk has increased.



#### Kerryconnect

The roll out of the Kerryconnect project to implement a Group wide common ICT solution and standard way of working is continuing with the deployment of SAP commencing in the Americas regions in 2017. Any delay to the project or failure to deliver projected efficiencies may disrupt business operations reducing our ability to serve customers. An over-run in costs due to scope creep, delayed implementation or other reasons may have a negative financial impact on the Group.

The Kerryconnect programme is supported by an executive steering team and has a robust governance structure. During the previous rollouts in Europe and APAC the Kerryconnect implementation team has accumulated significant knowledge and experience and will take these learnings into the next stage of deployment.

As in previous deployments a phased approach to rollout will be taken in the Americas region and KPIs will continue to be monitored at regular steering meetings.



Given the significant knowledge and experience of the Kerryconnect team, the Board considers that this risk is stable.



#### Risk Description and Potential Impact

#### Mitigation

#### Risk Trend and Link to Strategy

#### **Operational Risks**

#### **Intellectual Property Management**

Kerry develops, manufactures and delivers taste and nutrition technology based ingredients and integrated solutions to customers in the food, beverage and pharmaceutical industries. Any failure to protect the Group's Intellectual Property (IP) or prevention of unauthorised access to sensitive data could have an adverse effect on the Group's business and cause significant reputational damage.

Kerry Group continues to focus on developing, enhancing and protecting its intellectual property portfolio. As a global leader in the taste & nutrition and consumer foods markets, Kerry considers its intellectual property security to be paramount and as a result has developed sophisticated tailored Intellectual Property policies and strategies to protect and defend all assets against infringements or misuse by employees or third parties. These policies form the foundation of Kerry's intellectual property regime and represent a key area of focus for the Group, for both physical and digital assets.

Protection of IP is also a key focus of the ICT Security Steering Group.

IP protection clauses are a standard element of employment contracts.



This risk is broadly in line with the prior year but has been presented separately this year.



#### **Financial & Compliance Risks**

#### **Taxation**

In an increasingly complex international tax environment, such matters as changes in tax laws, changing legal interpretations, tax audits and transfer pricing judgements may impact the Group's tax liability or reporting requirements.

Failure to accumulate and consider relevant tax information may result in non-compliance with tax regulations or adverse tax consequences.

The Group employs a team of dedicated internal tax experts who support the Group in ensuring compliance with all taxation matters globally. The Group also engages external taxation advisors for research, use of economic statistical studies and guidance on matters of compliance where appropriate.

A strong emphasis is placed on proactively engaging with tax authorities in all material jurisdictions.



The Board considers that this risk is increasing given significant changes in the external environment.



#### **Treasury Risk**

The international nature of the Group's operations mean that it has transactions across many jurisdictions which expose it to inherent liquidity, foreign exchange and interest rate risks.

The Group's financial position remains strong with significant cash resources and relatively long debt maturities. The Group's Treasury function actively manages all risks through cash-flow forecasts, foreign currency exposure netting and hedging and monitoring of funding requirements.

A Group finance committee, which is described on page 30 is in place which oversees the Group's treasury and funding policies and activities. The Board routinely review and approve Group financing options.



The Board considers that this risk is broadly in line with the prior year.



#### GOING CONCERN AND LONGER TERM VIABILITY STATEMENTS

The Board, having reviewed the Group's principal risks and uncertainties assessed the going concern and longer term viability of the Group in line with the requirements of the UK Corporate Governance Code and the Irish Annex. Its conclusions on these assessments are outlined below.

#### **Going Concern**

The consolidated financial statements have been prepared on the going concern basis.

The Directors have considered the Group's business activities and how it generates value, together with the main trends and factors likely to affect future development, business performance and position of the Group as described in the Business Reviews on pages 33 to 41. The Group's 2017 budget was reviewed and approved at the December Board meeting. The Directors have also examined the financial position of the Group, including cash flows, liquidity position, borrowing facilities, financial instruments and financial risk management, as described on pages 24 to 30 and additionally as described in note 24 to the financial statements.

As a result of this review, the Directors report that they have satisfied themselves and consider it appropriate that the Group and the Company is a going concern, having adequate resources to continue in operational existence for the foreseeable future and have not identified any material uncertainties in the Group and the Company's ability to continue over a period of at least 12 months.

#### **Longer Term Viability Statement**

The Directors have assessed the prospects of the Group over a period of three years to 31 December 2019.

Although the Group's strategic plan covers a period of five years, the Board considers that three years is the most appropriate period to assess the longer term viability of the Group as current capital expenditure plans, commercial arrangements and financial projections etc. are considered to be more reliable and robust over this period.

The Board have considered how the occurrence of one or more of the Group's principal risks and uncertainties could materially impact the Group's business model, future performance, solvency or liquidity by assessing the impact of these risks in severe but plausible scenarios. While each of the principal risks and uncertainties could have an impact on the Group's performance, a significant food quality failure, an acquisition not delivering expected returns or a failure to achieve targeted revenue or margins were considered most likely to threaten the Group's longer term viability. These scenarios were stress tested to assess their impact on the Group's solvency, liquidity and cash flow. This analysis projected that significant headroom existed in all scenarios tested.

The Board considers that the diverse nature of the Group's geographies, markets, customer base, and product portfolio provide significant mitigation against the impact of a serious business interruption. Based on the results of this analysis the Directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.





## **DIRECTORS' REPORT**

#### DIRECTORS' REPORT

#### **BOARD OF DIRECTORS**

#### **Chairman & Executive Directors**



Mr. Michael Dowling (72) Chairman of the Board

Michael is a former Secretary General of the Department of Agriculture, Food and Forestry in Ireland and a Board member of the Agricultural Trust. He is also Chairman of the Board of Management of the UCC / Teagasc Food Innovation Alliance. He was appointed Chairman of the Board in 2015 and has served as a Director for 19 years. He is also a member of the Nomination Committee since January 2001 and was appointed as Committee Chairman in 2014.

Appointed: 3 March 1998 and as Chairman 1 January 2015



Mr. Stan McCarthy (59)\* **Chief Executive** 

Stan joined Kerry's graduate recruitment programme in Ireland in 1976. He has worked in a number of finance roles including Financial Controller in the USA on the establishment of Kerry's operations in Chicago in 1984. Following the Group's acquisition of Beatreme Foods Inc. in 1988 he was appointed Vice President of Materials Management and Purchasing. In 1991, he was appointed Vice President of Sales and Marketing and became President of Kerry North America in 1996. Stan has served as Director for 18 years.

Appointed: 9 March 1999 and as CEO on 1 January 2008



Mr. Brian Mehigan (55)\* **Chief Financial Officer** 

Brian joined Kerry Group in 1989, having previously worked in practice for six years. He held a number of finance positions within Kerry between 1989 and 2002. He is a Fellow of Chartered Accountants Ireland and a graduate of National University of Ireland, Cork. Brian has served as CFO and as an Executive Director on Kerry Group plc's Board for 15 years.

Appointed: 25 February 2002



Mr. Gerry Behan (52)\* President and CEO, **Kerry Taste and Nutrition** 

Gerry joined Kerry's graduate recruitment programme in 1986 and has held a number of senior financial and management roles primarily in the Americas region. He was appointed President and Chief Executive Officer of Kerry's Global Taste & Nutrition business on 19 December 2011. Gerry has served as a Board member for nine years.

Appointed: 13 May 2008



Mr. Flor Healy (54)\* **Chief Executive Officer, Kerry Foods** 

Flor joined Kerry's graduate recruitment programme in 1984 and has worked for the Group in a number of leading management and finance roles in Ireland and the UK. He was appointed Chief Executive Officer of the Group's Consumer Foods Division in 2004. Flor has served as a Board member for 13 years.

Appointed: 23 February 2004

\*Executive Director

# **Non-Executive Directors**



Dr. Hugh Brady (57)

Independent Non-Executive Director
Appointed: 24 February 2014

Hugh is President and Vice Chancellor of the University of Bristol in the UK. a position he has held since 2015. He was previously President of University College Dublin (UCD) from 2004-2013. A medical graduate, Hugh has had a successful career as a physician and biomedical research scientist in the US where he served on the faculty of Harvard Medical School for almost a decade prior to returning to his alma mater as Professor of Medicine and Therapeutics. In addition, Hugh has held many national and international leadership roles which include Chairman of the Irish Health Research Board and Chairman of the Universitas 21 Network of global research universities.

Hugh has served as a member of the Board for three years and was appointed a member of both the Audit and Nomination Committees in 2015.



Mr. Patrick Casey (67)

Board for over two years.

Independent Non-Executive Director
Appointed: 2 May 2014

Patrick operates his own business in the agribusiness sector and is a Director of Kerry Co-operative Creameries Limited.

Patrick has served as member of the



**Dr. Karin Dorrepaal** (55)

Independent Non-Executive Director

Appointed: 1 January 2015 Karin served as an executive Director on the Board of Schering AG in Berlin. Currently she holds non-Executive Director roles on the Boards' of Gerresheimer AG. Paion AG (vice Chairman), Humedics GmbH (Chairman) and Triton Private Equity all of which are based in Germany. During 2016 Karin was appointed non-Executive Director of Julias Clinical Research BV based in the Netherlands. She also serves on the Supervisory Board of Almirall S.A. in Spain. Dr. Dorrepaal received her Ph.D. from the Free University of Amsterdam, The Netherlands and also holds an MRA from the Frasmus University Rotterdam School of Management.

Karin has served on the Board for two years and joined the Remuneration Committee in January 2015 and Nomination Committee in December 2015.



Ms. Joan Garahy (54)

Independent Non-Executive Director
Appointed: 11 January 2012

Joan is Managing Director of ClearView Investments & Pensions Limited, an independent financial advisory company as well as being a Director of a number of private companies. She has 28 years of experience of advising on and managing investment funds. She is a former Managing Director of HBCL Investments & Pensions and Director of investments at HC Financial Services. In the past she worked with the National Treasury Management Agency as head of research at the National Pension Reserve Fund and was also head of research with Hibernian Investment Managers. Prior to that, she spent ten years as a stockbroker with both Goodbody and NCB in Dublin.

Joan has served as a member of the Board for five years. On 20 February 2012, Joan was appointed to Chair the Remuneration Committee and became a member of the Audit Committee on the same date.



Mr. James C. Kenny (63)

**Independent Non-Executive Director** Appointed: 1 June 2011

James was formerly Executive Vice President of US based Kenny Construction Inc. and also President of Kenny Management Services Inc. He previously served as US Ambassador to Ireland from July 2003 to June 2006. During 2016, James joined the Board of Hub Group, a multimodal transportation company, listed on the NASDAQ.

James has served as a member of the Board for six years. He was appointed a member of both the Remuneration and Nomination Committees on 20 February 2012.



Mr. Tom Moran (61)

Independent Non-Executive Director

Appointed: 29 September 2015 Tom was Secretary General of the Department of Agriculture, Food and the Marine from 2005 to 2014. Throughout his public sector career he held a number of international policy and international trade negotiation leadership roles. Tom also formerly served as Ireland's Agriculture Attaché to France and to the OECD. He is currently a Board member of An Bord Bia, the Irish Food Board, and chairs its Dairy Subsidiary Board. He is also a non-Executive Director of Elivia (France) and is Chairman of the Audit Committee for both the Irish Department of Housing, Planning, Community and Local Government and the Irish Government's Public Appointments Service.

Tom has served on the Board for one year and was appointed to the Audit Committee in December 2015 and the Remuneration Committee in February 2016.



Mr. Philip Toomey (63)

Independent Non-Executive Director

Appointed: 20 February 2012
Philip was formerly Global Chief
Operating Officer for the financial
services industry practice at Accenture
and has a wide range of international
consulting experience. He was also
a member of the Accenture Global
Leadership Council. He is a Fellow of
Chartered Accountants Ireland and a
Board member of UDG Healthcare plc to
which he was appointed in 2008.

Philip has served as a member of the Board for five years. He was appointed as Senior Independent Director to the Kerry Group plc Board on 20 February 2012 and as a member of the Audit Committee on the same date. He was appointed Chairman of the Audit Committee on 25 February 2013.

# DIRECTORS' REPORT

# **REPORT OF THE DIRECTORS**

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# **DIRECTORS AND OTHER INFORMATION**

# **Directors**

Michael Dowling, Chairman
Stan McCarthy, Chief Executive Officer\*
Brian Mehigan, Chief Financial Officer\*
Gerry Behan, President & CEO Taste & Nutrition\*
Flor Healy, CEO Kerry Foods\*
Hugh Brady
Patrick Casey
Karin Dorrepaal
Joan Garahy
James C. Kenny
Tom Moran
Philip Toomey

# **Secretary and Registered Office**

Brian Durran Kerry Group plc Prince's Street Tralee Co. Kerry Ireland

# **Registrar and Share Transfer Office**

Brian Durran Registrar's Department Kerry Group plc Prince's Street Tralee Co. Kerry Ireland

# Website

www.kerrygroup.com

<sup>\*</sup>Executive Director

The Directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2016.

### PRINCIPAL ACTIVITIES

Kerry Group is a world leader in the global food industry. The Group's industry-leading portfolio of taste & nutrition technologies and systems deliver unique, innovative solutions for customers across the food, beverage and pharmaceutical industries. Kerry Foods, the Group's Consumer Foods business is one of the leading suppliers of added-value branded and customer branded chilled food products in the Irish, UK and selected international markets.

Listed on the Irish and London Stock Exchanges, Kerry has an international presence with 130 manufacturing facilities across the world

### **RESULTS**

The Directors are pleased to report another strong performance for 2016 with an increase in adjusted earnings per share (EPS) before brand related intangible asset amortisation and non-trading items (net of related tax) of 7.1% over 2015 to 323.4 cent (2015: 3019 cent) and an increase in basic EPS to 302.9 cent (2015: 298.7 cent). Trading profit for the year increased by 70 basis points to 12.2% (2015: 11.5%). The Group achieved a record free cash flow of **€570m** (2015: €453m). Further details of the results for the year are set out in the Consolidated Income Statement, in the related notes forming part of the consolidated financial statements and in the financial and business reviews. The key performance indicators of the Group are discussed on pages 22 to 23.

# EVENTS AFTER THE BALANCE SHEET DATE

On 20 February 2017, the Directors recommended a final dividend totalling €69.0m in respect of the year ended 31 December 2016 (see note 10 to the financial statements). This final dividend per share is an increase of 12.0% over the final 2015 dividend paid on 13 May 2016. This dividend is in addition to the interim dividend paid to shareholders on 18 November 2016, which amounted to €29.6m.

The payment date for the final dividend is 19 May 2017 to shareholders registered on the record date 28 April 2017.

Since year end the Group has reached agreement to acquire Shanghai, China based *Tianning Flavour & Fragrance Co. Ltd.* and Adelaide, Australia based *Taste Master* for a combined consideration of €83.0m.

### SHARE CAPITAL

Details of the share capital are shown in note 27 of the financial statements. The authorised share capital of the Company is €35,000,000 divided into 280,000,000 A ordinary shares of 12.5 cent each, of which **176,010,831** shares were in issue at 31 December 2016.

The A ordinary shares rank equally in all respects. There are no limitations on the holding of securities in the Company.

There are no restrictions on the transfer of fully paid shares in the Company but the Directors have the power to refuse the transfer of shares that are not fully paid. There are no deadlines for exercising voting rights other than proxy votes, which must be received by the Company at least 48 hours before the time of the meeting at which a vote will take place. There are no restrictions on voting rights except:

- where the holder or holders of shares have failed to pay any call or instalment in the manner and at the time appointed for payment; or
- the failure of any shareholder to comply with the terms of Article 14 of the Company's Articles of Association (disclosure of beneficial interest).

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights.

The Directors have the authority to issue new shares in the Company up to a maximum of 20 million new A ordinary shares. This authority will expire on 27 July 2017 and it is intended to seek shareholder approval to renew the authority at the Annual General Meeting (AGM) to be held on 4 May 2017.

# The Directors are pleased to report another strong performance for 2016.

An increase in adjusted earnings per share (EPS) before brand related intangible asset amortisation and non-trading items (net of related tax) to

323.4 cent

An increase in basic EPS to

302.9 cent

Shareholders approved the authority for the Directors to allot shares for cash on a non-pro rata basis up to a maximum of 5% of the issued share capital at the AGM held on the 27 April 2016. The extension of this authority by a further 5% of the issued share capital, provided the additional authority will only be used for the purpose of an acquisition or one which has taken place in the preceding six month period and is disclosed with the announcement of the issue, was also approved by shareholders at the 2016 AGM. Neither authorities have been exercised and will expire on the 27 July 2017 and it is intended to seek shareholder approval for their renewal at the 2017 AGM.

During 2016, **59,941** shares and **44,167** share options vested under the Company's Short and Long Term Incentive Plans. In the same period, **65,686** share options were exercised. Further details are shown in note 28 to the financial statements.

The Company may purchase its own shares in accordance with the Companies Act 2014 and the Company's Articles of Association. At the 2016 AGM, shareholders passed a resolution authorising the Company to purchase up to 5% of its own issued share capital but the authority was not exercised. This authority is due to expire on 27 July 2017 and it is intended to seek shareholder approval for its renewal at the 2017 AGM.

# ARTICLES OF ASSOCIATION

The Articles of Association empower the Board to appoint Directors but also require such Directors to retire and submit themselves for re-election at the next AGM following their appointment. Specific rules regarding the re-election of Directors are referred to on page 89.

The regulations contained in the Articles of Association of the Company may be amended by special resolution with the sanction of shareholders in a general meeting.

# **CHANGE OF CONTROL PROVISIONS**

The Company's financing arrangements include 'Change of Control' provisions which give its lending institutions the right to withdraw their facilities in the event of a change of control occurring unless they agree otherwise in writing. Other than change of control provisions in those arrangements, the Company is not a party to any other significant agreements which contain such a provision.

# **ACQUISITIONS AND DISPOSALS**

The Group completed two acquisitions during the year. The businesses acquired are described in the Chief Executive's Review and in note 31 to the financial statements.

# RESEARCH AND DEVELOPMENT

The Group is fully committed to ongoing technological innovation in all sectors of its business, providing integrated customer-focused product development by leveraging our global technology capabilities and expertise. To facilitate this, the Group has invested in highly focused research, development and application centres of excellence with a strategically located Global Technology &

Innovation Centre, based in Naas, Ireland which is supported by Regional Development & Application Centres. Expenditure on research and development amounted to €260.7m in 2016 (2015: €234.2m).

#### SUSTAINABILITY

The Group delivered good progress on its sustainability objectives in 2016 and in the implementation of our Kerry Group Sustainability Strategy 'Towards 2020' programme. The Group remains committed to the highest standards of business and ethical behaviour, to fulfilling its responsibilities to the communities it serves and to the creation of long term value for all stakeholders on a socially and environmentally sustainable basis.

Details regarding the Group's sustainability performance, policies and programmes in respect of the marketplace, environment, workplace and the community are outlined in the Sustainability Review on pages 42 to 59.

# **FUTURE DEVELOPMENTS**

Kerry Group is well positioned across global food, beverage and pharmaceutical growth markets and our strong technology platforms will continue to lead innovation and category growth. The Group is confident that good growth rates are achievable through application of our industry leading taste & nutrition technologies in developed and developing markets. In addition, in the Group's core consumer foods categories, the underlying strength of Kerry Foods' brands and its focus on product innovation and positioning in convenience growth categories will sustain profitable growth. The Group is well positioned to actively pursue strategic acquisition opportunities which will support top-line and earnings growth into the future.

# **BOARD AND COMMITTEE CHANGES**

Stan McCarthy will retire as Group CEO on 30 September 2017 and he will step down from the Board at the end of the year. Upon the recommendation of the Nomination Committee, the Board appointed Edmond Scanlon as CEO Designate on 20 February 2017. His appointment as Group CEO will be effective on 1 October 2017 and he will join the Board on that date.

Michael Ahern, James Devane and John Joseph O'Connor retired from the Board on 31 December 2016 and Patrick Casey will retire from the Board on 30 April 2017.

On 20 February 2017, the Board, upon the recommendation of the Nomination Committee, agreed to appoint Gerard Culligan and Con Murphy to the Board with effect from 1 June 2017.

Gerard Culligan operates his own business in the agribusiness sector and is a Director and co-owner of two private companies in the marine industry. He is also Chairman of Kilrush Credit Union based in Co. Clare, Ireland.

Con Murphy operates his own business in the agribusiness sector and is Chairman of the Irish Montbeliarde Cattle Society.

Both Mr. Culligan and Mr. Murphy were formerly Directors of Kerry Co-operative Creameries Ltd. and have extensive experience in the Dairy industry.

Tom Moran was appointed to the Remuneration Committee in February 2016.

### **DIRECTORS**

The Board, at the date of this report, consists of a Chairman, four Executive and seven independent non-Executive Directors. The names and biographical details of the Directors are set out on pages 70 to 71.

Patrick Casey's term of office will cease on 30 April 2017 and he will step down from the Board with effect from that date. All other Directors will retire by rotation at the AGM and they, being eligible, are seeking re-election at that meeting.

Following the individual performance evaluation of all Directors, as outlined in the Corporate Governance Report on pages 80 and 81, the Board recommends the re-election of all Directors seeking re-election.

The Directors' and Company Secretary's interests in shares and debentures are included in the Remuneration Report on page 110.

### SUBSTANTIAL INTERESTS

The Directors have been notified of the following shareholdings of 3% or more in the issued share capital of the Company:

Shareholder	Number Held	%
Kerry Co-operative Creameries Limited (KCC)	24,048,456	13.7%
Blackrock Investment Management	8,359,158	4.8%
The Capital Group Companies, Inc.	6,942,324	3.9%
MFS International Management	5,554,519	3.2%

Apart from the aforementioned, the Company has not been notified of any interest of 3% or more in the issued share capital of the Company.

# **CORPORATE GOVERNANCE**

The Corporate Governance Report on pages 78 to 82 sets out the Company's application of the principles, and compliance with, the provisions of the 2014 UK Corporate Governance Code and Irish Annex (the Code). The going concern statement in the Risk Report on page 68 sets out the Company's basis for the adoption of the going concern basis of accounting in preparing the consolidated financial statements.

# PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland, a description of the principal risks and uncertainties facing the Group are outlined on pages 62 to 67.

# **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the profit or loss of the Group for that period. Under that law the Directors have elected to prepare group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that the company keeps adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy and to enable them to ensure that the financial statements are prepared in accordance with IFRSs as adopted by the European Union and comply with the Companies Act 2014 and as regards to the Group financial statements, Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website (www.kerrygroup.com). Irish legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland, the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. The Directors are also required by applicable law and the Listing Rules issued by the Irish Stock Exchange and the UK Listing Authority to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance.

Each of the Directors, whose names and functions are listed on page 72, confirms that, to the best of their knowledge and belief:

- the consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with IFRSs and IFRSs as adopted by the European Union and give a true and fair view of the assets, liabilities, and financial position of the Group and the undertakings included in the consolidation, taken as a whole, as at that date and its profit for the year then ended;
- the Company financial statements, prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2014, give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016;
- the Business Review includes a fair review of the development and performance of the business for the year ended 31 December 2016 and the position of the Company and the Group at the year end;
- the Report of the Directors provides a description of the principal risks and uncertainties which may impact the future performance of the Company and the Group at the year end; and
- the Annual Report and financial statements, taken as a whole, provides the information necessary for shareholders to assess the Company's and Group's performance, business model and strategy and is fair, balanced and understandable.

#### DIRECTORS' COMPLIANCE POLICY STATEMENT

The Directors acknowledge that they are responsible for securing compliance by the Company with its relevant obligations as outlined in the Companies Act 2014 (the 2014 Act).

The Directors confirm:

- (a) that a compliance policy statement, setting out the Company's policies (that, in the directors' opinion, are appropriate to the Company) regarding compliance by the Company with its relevant obligations (within the meaning of the 2014 Act) has been drawn up;
- (b) appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the Company's relevant obligations have been put in place; and
- (c) a review of those arrangements and structures has been conducted during the financial year.

The arrangements and structures include reliance on the assistance and advice of persons employed by the Group and by external legal, compliance and tax advisors that the Directors consider to have the requisite knowledge and experience to advise on the Company's compliance with its relevant obligations.

# **ACCOUNTING RECORDS**

To ensure that proper accounting records are kept for the Company in accordance with section 281 to 289 of the Companies Act 2014, the Directors employ appropriately qualified accounting personnel and maintain appropriate accounting systems.

The accounting records of the Company are maintained at the Company's registered office.

### DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the Directors, who were members of the Board at the date of approval of this Report of the Directors, confirms that:

- so far as they are aware there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# **ACCOUNTABILITY AND AUDIT**

A statement relating to the Directors' responsibilities in respect of the preparation of the financial statements is set out on page 75 with the responsibilities of the Company's Independent Auditors outlined on page 117.

Following a formal external audit tender process undertaken during 2015, the Board appointed PricewaterhouseCoopers as external auditors for the Group with effect from 29 March 2016. A resolution to formally approve the appointment of PricewaterhouseCoopers as external auditors was approved by Shareholders at the AGM held on 27 April 2016.

The financial statements on pages 118 to 183 have been audited by PricewaterhouseCoopers, Chartered Accountants.

# **POLITICAL DONATIONS**

During the year the Company made no political contributions which require disclosure under the Electoral Act, 1997.

# **GROUP ENTITIES**

The principal subsidiaries and associated undertakings are listed in note 37 to the financial statements.

# **RETIREMENT BENEFITS**

Information in relation to the Group's retirement benefit schemes is given in note 26 to the financial statements.

# **TAXATION**

So far as the Directors are aware, the Company is not a close company within the definition of the Taxes Consolidation Act, 1997. There has been no change in this respect since 31 December 2016.

## FINANCIAL INSTRUMENTS

The financial risk management objectives and policies along with a description of the use of financial instruments is set out in note 24 to the financial statements.

# INFORMATION REQUIRED TO BE DISCLOSED BY LR 6.8.1, REPUBLIC OF IRELAND LISTING AUTHORITY

For the purposes of LR 6.8.1, the information required to be disclosed can be found in the following locations:

Section	Topic	Location
(1)	Interest capitalised	Statement of
		accounting policies
(2)	Publication of unaudited	Supplementary
	financial information	information
(3)	Details of small related	Note 34 to the financial
	party transactions	statements
(4)	Details of long-term	Remuneration
	incentive schemes	Committee Report
(5) - (14)	Section 5 - 14 of LR 6.8.1	Not applicable

# **CROSS REFERENCES**

All information cross referenced in this report forms part of the Report of the Directors.

Signed on behalf of the Board:

Michael Dowling

Chairman

20 February 2017

Stan McCarthy

Chief Executive Officer

### DIRECTORS' REPORT

# CORPORATE GOVERNANCE REPORT



Michael Dowling Chairman of the Board

Dear Shareholder,

I am pleased to present the Kerry Group Corporate Governance Report for the year ended 31 December 2016.

On behalf of the Board I can confirm that, for the year under review, the Group has fully complied with the 2014 UK Corporate Governance Code and the Irish Annex (the Code). In April 2016, the Financial Reporting Council (FRC) published a revised UK Corporate Governance Code which is effective for financial years beginning on or after 17 June 2016. A number of the updated principles and disclosures have been adopted during 2016 and the remainder will be adopted in 2017.

The Board, in conjunction with the Nomination Committee. ensures that there are robust plans in place to facilitate Board, Executive and senior management succession. During 2016, the Committee led by the Chairman and supported by the Senior Independent Director and independent external consultants, identified and recommended a successor to replace the CEO following his planned retirement in 2017.

The appointment of the CEO Designate was approved by the Board on 20 February 2017 and he will assume the role of Group CEO on 1 October 2017 and will also join the Board on that date.

In December 2016, three non-Executive Directors retired from the Board having concluded their terms of office and a fourth non-Executive Director will retire from the Board in April this year. The Board has agreed to appoint two new non-Executive Directors with effect from 1 June 2017 and details of all changes are set out in the Nomination Committee Report on page 91.

Each year the Board undertakes a formal evaluation of its effectiveness and that of its Committees. In 2016, this was externally facilitated by Independent Audit Limited (Independent Audit). Following this review Independent Audit determined that the Board and its Committees are performing well but recommended areas for further consideration. Details of the process and resulting actions arising from this review can be found on pages 80 and 81.

The Board sets the tone and culture for the way in which the Group operates. This culture is underpinned by a robust risk management framework consisting of policies, procedures, behaviours and tasks, including a Code of Conduct which defines business conduct standards for anyone working for or on behalf of the Company. As Chairman I will continue, with Board support, to ensure that the remaining principles of the Code (April 2016) are implemented in 2017, continuing the Group's commitment to achieving high standards of governance.

Details of the Group's activities and the operations of the Board, contained in the following report, outline the manner in which the Group has achieved compliance with the Code through the activities and operations of the Board and its committees during

Michael Dowling Chairman of the Board

Muhael lowowtw

# **LEADERSHIP**

# **BOARD COMPOSITION AND MEMBERSHIP**

The Board is responsible for ensuring the long term success of the Company through experienced leadership and establishing effective control and oversight of the Group's activities.

There are 12 members of the Board, which comprises of a non-Executive Chairman, Chief Executive, Chief Financial Officer, two other Executive Directors, and seven non-Executive Directors.

The Directors are of the opinion that the composition of the Board provides the extensive relevant business experience needed to oversee the effective operation of the Group's activities and that the individual Directors bring a diverse range of skills, knowledge and experience, including the industry and international experience, necessary to provide effective governance and oversight of the Group.

> **READ MORE** Further details be found on pages 70 to 71.

# **BOARD ROLE AND OPERATIONS**

The Board is responsible for delivering long-term value to the Group's shareholders while exercising business judgement on developing strategy, delivering objectives and managing the risks that face the organisation. The Board has a formal schedule of matters specifically reserved to it for decision as noted below and has delegated other responsibilities to management for day to day operations within the context of the Kerry Group Governance Framework as outlined on page 80.

# Schedule of Matters Reserved for the Board

- Appointments to the Board;
- Ensuring compliance with corporate governance, legal, statutory and regulatory requirements;
- Approval of the overall Group strategic and operating plans;
- Monitoring and review of risk management and internal control systems;
- Approval of acquisitions and divestitures;
- Treasury policy and major corporate activities;
- Approval of annual budgets (revenue and capital);
- Approval of preliminary results, interim management statements and interim financial statements;
- Assessment of the long term viability of the Group and the going-concern assumption; and
- The preparation of, and confirmation that, the annual report and financial statements present a fair, balanced and understandable assessment of the Company's position and prospects.

The Directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by shareholders in General Meetings and to the Company's Memorandum and Articles of Association. The fundamental responsibility of the Directors is to exercise their business judgement on matters of critical and long-term significance to the Group.

The Chairman ensures that all Directors have full and timely access to such information as they require to discharge their responsibilities fully and effectively. Board papers are issued to each Director at least one week in advance of Board meetings and include the meeting agenda, minutes of the previous Board meeting and all papers relevant to the agenda. The Chairman, in conjunction with the Company Secretary, has primary responsibility for setting the agenda for each meeting. All Directors continually receive comprehensive reports and documentation on all matters for which they have responsibility to allow them to fully complete their duties as a Director. All Directors participate in discussing strategy, trading updates, financial performance, significant risks and operational activities. Board meetings are of sufficient duration to ensure that all agenda items and any other material non-agenda items that may arise are adequately addressed.

Each Director has access to the advice and services of the Company Secretary, whose responsibility it is to ensure that Board procedures are followed and that applicable rules and regulations are complied with. In accordance with an agreed procedure, in the furtherance of their duties, each Director has the authority to engage independent professional advice at the Company's expense. There is a Directors and Officers liability policy in place for all Directors and Officers of the Company against claims from third parties relating to the execution of their duties as Directors and Officers of the Company and any of its subsidiaries.

### MEETINGS AND ATTENDANCE

The Board meets sufficiently regularly to ensure that all its duties are discharged effectively. All Directors are expected to prepare for and attend meetings of the Board and the AGM. Should any Director be unable to attend a Board meeting in person, conferencing arrangements are available to facilitate participation. In the event that a Board member cannot attend or participate in the meeting, the Director may discuss and share opinions on agenda items with the Chairman, Chief Executive, Senior Independent Director or Company Secretary in advance of the meeting.

During 2016, the Board met eight times and there was full attendance by all members of the Board apart from Michael Ahern and John Joseph O'Connor who each attended seven of the eight meetings.

### CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and Chief Executive are separate and the division of duties between them is formally established, set out in writing and agreed by the Board. The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all respects. The Executive Directors of the Company, led by the Chief Executive, are responsible for the management of the Group's business and the implementation of Group strategy and policy.

# SENIOR INDEPENDENT DIRECTOR

Philip Toomey is the Group's Senior Independent Director (SID). The principal role of the SID is to provide a sounding board for the Chairman and to act as an intermediary for other Directors as required. The SID is responsible for the appraisal of the Chairman's performance throughout the year. He is also available to meet shareholders upon request, in particular if they have concerns that cannot be resolved through the Chairman or the Chief Executive.

# **INDEPENDENCE**

Patrick Casey is also a director of Kerry Co-operative Creameries (KCC), the Group's largest shareholder. Although Patrick is connected to a significant shareholder, the Board as a whole is of the opinion that he is independent in character and judgement. His term of office ceases on 30 April 2017 following which he will retire from the Board.

# **BOARD COMMITTEES**

The Board has three committees, the Audit Committee, the Nomination Committee and the Remuneration Committee, which support the operation of the Board through their focus on specific areas of governance. Each committee is governed by its terms of reference, available from the Group's website (www.kerrygroup. com) or upon request, which sets out how it should operate including its role, membership, authority and duties. Reports on the activities of the individual committees are presented to the Board by the respective committee Chairmen.

Further details on the duties, operation and activities of all Board Committees can be found in their respective reports on pages 83 to 111.

# KERRY GROUP GOVERNANCE FRAMEWORK

The Kerry Group Governance Framework, as outlined in the diagram below, is the structure which supports the Board in its duties and overseeing the Group's operations.

# **BOARD EFFECTIVENESS**

# **BOARD INDUCTION AND DEVELOPMENT**

On appointment to the Board, each new non-Executive Director undergoes a full formal induction programme. This induction includes an overview of their duties and responsibilities as a Director, presentations on the Group's operations and results, meetings with key executive management and an outline of the principal risks and uncertainties of the Group.

Throughout the year the Board as a whole engages in development through a series of consultations with subject matter experts on a range of topics including risk management,

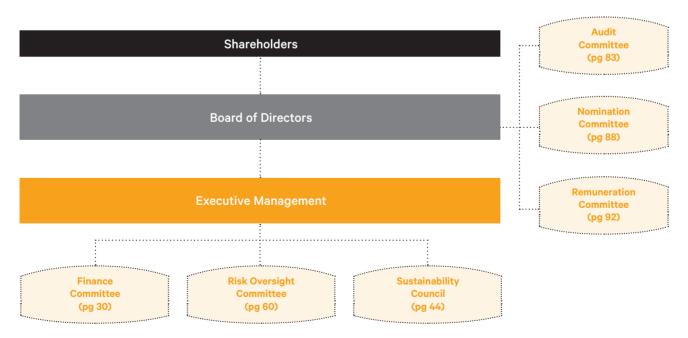
corporate governance and strategy. Presentations are also made by Executive Directors and senior management on various topics throughout the year in relation to their areas of responsibility. On an annual basis a Board meeting is combined with a comprehensive schedule of visits, over a week long period, to the Group's operating facilities to allow Directors further develop their understanding of the Group's activities and meet with local senior management. The June 2016 Board meeting was held in London following which Board members visited three of the Group's operating facilities in England, France and Italy. These visits focused on Kerry's 'Ready-to-Eat' consumer foods capabilities as well as Kerry's taste technology and expertise. While in Italy Board members were also hosted by a key customer allowing them to get further insights into the Group's operations from a customer perspective.

As part of their personal development plans individual non-Executive Directors were also afforded the opportunity to visit a number of the Group's international facilities and operations during 2016.

Individual board members training requirements are reviewed with the Chairman and Company Secretary and training is provided to address these needs.

# **BOARD PERFORMANCE EVALUATION**

In accordance with provisions of the Code, a performance evaluation of the Board is carried out annually and facilitated externally every third year. In 2016, the Board engaged Independent Audit to facilitate a full external evaluation. Independent Audit, based in the UK is recognised as a leading firm of board performance evaluators. Independent Audit has no other connection to Kerry Group.



The review, performed during October and November 2016, considered the effectiveness of the Board and its committees. Independent Audit gathered the views of all Directors through the use of individual questionnaires. In addition, interviews were held with the Chairman of the Board, the Senior Independent Director, the Committee Chairs and the Company Secretary. In addition, Independent Audit observed the November Board and Audit Committee meetings and reviewed the corresponding papers.

# **Topics covered during Board Performance Evaluation Included**

- Board composition and succession planning;
- Meeting material and dynamics;
- Strategic development and risk management; and
- The work of Board Committees.

Independent Audit noted that good progress had been made against many areas raised in both the previous external review and the internal review completed in 2015. In particular, it commended progress both in relation to time devoted to strategy and greater consideration given to succession and contingency planning. Overall the outcome of Independent Audit's review was that the Board and its committees perform well. However the review included a number of suggestions to which the Board will give further consideration. The main areas for further consideration arising from the review are included in the table below:

# Key Action Points Arising from Board Performance Evaluation

- Review the Board size;
- Continue to optimise future Board composition; and
- Consider development needs of the Board as a whole and that of individual Directors.

The Chairman appraised the performance of each of the non-Executive Directors by meeting each Director individually in conjunction with using Thinking Board, Independent Audit's self-assessment questionnaire software. In addition, the Senior Independent Director led the formal appraisal of the Chairman's performance, based on discussion and feedback from all Directors on the performance of the Chairman during the year.

At the December 2016 Board meeting, the Board considered Independent Audit's evaluation report. The Directors' appraisal process concluded that each Director was performing well and were committed to their role in terms of dedication of time and attendance at meetings. The Chairman, along with the Company Secretary, will ensure that suggestions from the 2016 evaluation report and areas for consideration arising from the Directors' appraisal, where identified, will be addressed during 2017.

## **ACCOUNTABILITY**

### **RISK MANAGEMENT AND INTERNAL CONTROLS**

The internal control framework in Kerry Group is defined as a system encompassing the policies, processes, tasks and behaviours, which together facilitate the Group's effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve its business objectives.

The systems which operate in Kerry Group provide reasonable, but not absolute, assurance of:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of the financial information produced.

The Board has delegated certain duties to the Audit Committee in relation to the ongoing monitoring and review of risk management and internal control systems. The work performed by the Audit Committee is described in their report on pages 83 to 87.

Full details of the risk management systems are described in the Risk Report on pages 60 to 61.

The principal risks and uncertainties facing the company, including those that could threaten the business model, future performance, solvency or liquidity are described on pages 62 to 67. The Directors confirm that they have carried out a robust assessment of these risks and the actions that are in place to mitigate them.

The Directors confirm that they have also reviewed the effectiveness of the systems of risk management and internal control which operated during the period covered by these financial statements and up to the date of this report and that no significant failings or weaknesses were identified. The procedures adopted comply with the guidance contained in Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014) as published by the Financial Reporting Council in the UK.

# FEATURES OF INTERNAL CONTROL IN RELATION TO THE FINANCIAL REPORTING PROCESS

The main features of the internal control and risk management systems of the Group in relation to the financial reporting process include:

- The Board review and approve a detailed annual budget and monitor performance against the budget through periodic Board reporting;
- Prior to submission to the Board with a recommendation to approve, the Audit Committee review the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and all formal announcements relating to these statements;

- Adherence to the Group Code of Conduct and Group policies published on the Group's intranet ensures the key controls in the internal control system are complied with;
- Monthly reporting and financial review meetings are held to review performance at business level ensuring that significant variances between the budget and detailed management accounts are investigated and remedial action is taken as necessary;
- The Group has a Compliance function to establish compliance polices and monitor compliance across the countries in which the Group operates;
- The Group operates a control self-assessment system covering the key controls for the Finance, Tax and Treasury functions of the Group:
- A well-resourced and appropriately skilled Finance function is in place throughout the Group;
- Completion of key account reconciliations at reporting unit and Group level:
- Centralised Taxation and Treasury functions and regional Shared Service Centres established to facilitate appropriate segregation of duties:
- The Group Finance Committee has responsibility for raising finance, reviewing foreign currency risk, making decisions on foreign currency and interest rate hedging and managing the Group's relationship with its finance providers;
- The Board through the Audit Committee, completes an annual assessment of risks and controls;
- Appropriate ICT security environment; and
- The Internal Audit function continually review the internal controls and systems and make recommendations for improvement which are reported to the Audit Committee.

# FAIR. BALANCED AND UNDERSTANDABLE

The Directors have concluded that the Annual Report presents a fair, balanced and understandable assessment of the Company's position and prospects. This assessment was completed by the Audit Committee and the activities undertaken in reaching this conclusion are discussed on page 85.

# **RELATIONS WITH SHAREHOLDERS**

# SHAREHOLDER COMMUNICATIONS

The Board ensures that a satisfactory channel of communication with existing and potential shareholders exists. The Group is committed to interacting with Kerry's investment community to share details of its strategic plans, long term targets and trading performance.

The Group Annual and Interim reports together with its Interim Management Statements are the principal mediums through which the Company communicates with its shareholders. Where necessary, the Board and Committee Chairmen engage with shareholders on specific topics and, where relevant, provide feedback to other Directors. The Chairman and Senior Independent Director are also available throughout the year to meet shareholders on request.

During the year, the Chief Executive, Chief Financial Officer and the Investor Relations team engaged with investors through a variety of formats including hosting Kerry Investor events and visits to the Kerry Global Technology & Innovation Centres in Naas, Ireland and Beloit, North America as well as facilitating both foodservice and supermarket investor tours. The Investor Relations team met over 700 investors through participation in roadshows and attendance at conferences in over 20 cities.

Kerry's Investor Relations team also maintained contact with the investment community throughout the year, answering financial, sustainability and other queries as they arose. A significant amount of published material including results, share price information, presentations and news releases are accessible to all shareholders on the Group's website (www.kerrygroup.com) and through the Kerry Group Investor Relations application. Through the Investors section of the website, shareholders and others can subscribe to receive automated Kerry Group plc email alerts when new information is posted to the site.

### ANNUAL GENERAL MEETING

The AGM provides an opportunity for the Directors to deliver presentations on the business and for shareholders, both institutional and private, to question the Directors directly. All Directors attend the AGM and are available to meet with shareholders and answer questions as required. Notice of the AGM, proxy statement and the Annual Report and Financial Statements are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed at the AGM on each substantially separate issue including a particular resolution relating to the report and financial statements. Details of the proxy votes for and against each resolution, together with details of votes withheld are announced after the result of the votes by hand. These details are published on the Group's website following the conclusion of the AGM.

# DOWNI OAD App at kerrygroup.com



## DIRECTORS' REPORT

# **AUDIT COMMITTEE REPORT**



Philip Toomey Chairman of the Audit Committee

Dear Shareholder,

On behalf of the Audit Committee I am pleased to present our report for the year ended 31 December 2016.

The report details how the Audit Committee fulfilled its responsibilities under the 2014 UK Corporate Governance Code and the Irish Annex (the Code) and the 2012 Financial Reporting Council (FRC) Guidance on Audit Committees. Kerry Group has also considered the April 2016 revisions to the Code and the updated Guidance on Audit Committees and has adopted a number of these principles during 2016 with the remainder to be adopted in 2017.

In the year under review, the Committee supported the Board in its responsibilities relating to monitoring the Group's financial reporting process, reviewing and monitoring the risk management and internal control systems, overseeing the Group's Internal Audit function and advising the Board on the appointment and independence of the Group's external auditor. The Committee has reviewed in detail both the financial and non-financial sections of the Group's Annual Report and have confirmed to the Board that the report when taken as a whole is fair, balanced and understandable and provides the

information necessary for shareholders to assess the performance, business model and strategy of the Group. The Committee also advised the Board on the requirements of the Companies Act 2014 including the requirement to adopt a Directors' Compliance Statement.

As outlined in our report last year, the Committee engaged in a formal tender process for the external audit of the Group's Financial Statements in respect of the year ended 31 December 2016. Following the conclusion of this process, the Board approved the appointment of PricewaterhouseCoopers (PwC) as auditors to the Group and this appointment was subsequently approved by our shareholders at the AGM held on 27 April 2016. A key focus of the Committee during the year has been enabling a smooth and successful transition to the new auditors.

An external review of the Committee was conducted by Independent Audit Limited (Independent Audit) during 2016 and the outcome of this review was that the Committee was performing well. Further details are set out on page 84.

In September 2016, I visited the Group's Technology & Innovation Centre in Beloit, Wisconsin and met with key members of the North American finance leadership team. This was an opportunity to receive an update on the challenges and the various initiatives that are underway to improve and enhance the control and reporting environment.

I look forward to meeting with shareholders at our forthcoming AGM on 4 May 2017.



**Philip Toomey** Chairman of the Audit Committee

# **ROLES AND RESPONSIBILITIES**

The main roles and responsibilities of the Committee, which have been reviewed and updated to reflect the April 2016 revisions to the Code and the updated Guidance on Audit Committees, are set out in written terms of reference which are available from the Group's website (www.kerrygroup.com) or upon request.

The key responsibilities outlined in the terms of reference are included in the table on page 84.

During the year the Audit Committee Chairman provided a letter to the Board outlining how the Committee discharged its duties in 2016.

# **COMMITTEE MEMBERSHIP**

During 2016, the Audit Committee comprised four independent non-Executive Directors; Dr. Hugh Brady, Ms. Joan Garahy, Mr. Tom Moran and was chaired by Mr. Philip Toomey.

Together the members of the Committee bring a broad range of experience and business acumen which is vital in supporting effective governance. As required by the Code, the Board is satisfied that both Philip Toomey and Joan Garahy have recent and relevant financial experience, as set out in their biographical details on page 71.

The Company Secretary is the Secretary of the Committee.

# **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;
- Managing the appointment and remuneration of the 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;
- Advising the Board on whether the Annual Report and Financial Statements, when taken as a whole are fair, balanced and understandable;
- Reviewing and 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.

# **COMMITTEE MEETINGS**

The Committee met six times during the year and there was full attendance by Committee members at all meetings.

Typically the Chief Executive, the Chief Financial Officer, the Group Financial Controller, 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 Board meeting, the Chairman of the Committee reports to the Board on the key issues which have been discussed.

# **COMMITTEE EVALUATION**

As detailed on pages 80 and 81, an external review of the Board and its Committees took place in 2016. This process was externally facilitated by Independent Audit. The evaluation was carried out based on Committee member's responses to Independent Audit's questionnaires and an interview held between Independent Audit and the Chair and Secretary of the Committee. In addition, as part of the evaluation process Independent Audit observed the November Committee meeting and reviewed the corresponding papers. The Committee considered the evaluation report and the resultant recommendation will form part of the agenda for Committee meetings in the coming year. The conclusion from the evaluation process was that the Committee was performing well.

# **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 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 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 estimates and judgements. The table on page 85 sets out the significant issues considered by the Committee in relation to the financial statements for the year ended 31 December 2016.

# **Significant Financial Reporting Judgements**

# **Business** Combinations

The Group acquired two businesses during the financial year which were accounted for as business combinations and recorded material measurement period adjustments to the provisional fair values in respect of certain 2015 acquisitions. The Committee reviewed the methodology and assumptions applied in determining these fair values. The Committee found the methodology and assumptions to be appropriate following discussion with senior management and the external auditor.

# Impairment of Indefinite Life Intangible Assets

Intangible assets, as disclosed in note 12 to the financial statements, represents the largest number on the Group balance sheet at €3.4bn. The Committee considered the process and methodology used to complete the impairment review of the Group's indefinite life intangible assets including goodwill, and specifically the assumptions used for the future cash flows, discount rates, terminal values and growth rates. The Committee found that the methodology and assumptions used are appropriate following discussions with senior management and the external auditor.

#### Taxation

An element of judgement is required when arriving at the level of provisioning for uncertain tax liabilities. The Committee reviewed and discussed the Group's tax provisioning methodology with senior management and also considered the outcome of the auditors' review of these provisions. As a result, the Committee believes the level of provisioning is appropriate.

# Retirement **Benefit Obligations**

The Group operates a number of post-retirement benefit schemes, the valuations of which can fluctuate significantly with changes in underlying valuation assumptions. The Committee recognise the uncertainty inherent in these assumptions particularly those related to discount rates, inflation rates and life expectancy. The Committee having discussed with senior management and considered the view of the external auditors, are satisfied that both the methodology and valuation assumptions, prepared by external actuaries and adopted by management are appropriate.

### 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 company's position and 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 verifying their assessment of the consistency between the narrative and financial sections of the Annual Report was presented to the Audit Committee; and
- the draft Annual Report and 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, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, business model and strategy.

### 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 60 and 61.

Throughout the year, the Committee:

- reviewed and approved the assessment of the principal risks and uncertainties that could impact the achievement of the Group's strategic objectives as described on pages 62 to 67;
- 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 failures 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.

As outlined in the Risk Report on page 60, in 2016 an increased amount of time was scheduled on Board agendas to accommodate risk presentations which included, amongst others, presentations from the Head of Quality and the Group Head of ICT on key controls in their respective areas.

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 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 were 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.

External Quality Assessments (EQA) by independent external consultants are conducted, at least, every five years, to confirm compliance with the International Professional Practice Framework of the Institute of Internal Auditors. The most recent external assessment was completed in 2012 and the Internal Audit function intends to complete its next assessment in 2017. During 2016, an internal review against the same standards was completed and the output from the review, which was deemed as satisfactory, was presented to the Audit Committee at the April meeting.

The Committee concluded that for 2016 the Internal Audit function was performing well and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

### **EXTERNAL AUDITOR**

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

# **Tendering and Appointment**

In March 2016, following a formal tender process, which was overseen by the Audit Committee, PricewaterhouseCoopers (PwC) were appointed as the Group's external auditor. Going forward, the Committee will ensure that in accordance with EU legislation in relation to Audit Reform as adopted in Irish legislation, the external auditor will be rotated at least once every ten years. The Committee will oversee the tendering process to ensure that all firms have such access as is necessary to information and individuals for the duration of the tendering process.

During the year a transition plan setting out the agreed principles, framework and timeline to ensure the efficient transfer of the external audit, from the previous Group auditor Deloitte to PwC, was discussed in detail with the Audit Committee who were satisfied that it was appropriate. This plan included attendance by the lead engagement partner at the 2016 Audit Committee meetings and visits by the Group engagement team to a number of key global Group locations. Detailed predecessor Deloitte file reviews were completed, where permitted by local legislation. A transition workshop involving PwC partners and managers from key locations also took place, which included presentations from Group Finance, Tax and Internal Audit.

The Audit Committee approved the remuneration for the external auditor, details of which are set out in note 3 to the financial statements.

# Independence, Quality and Effectiveness

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

The Audit Committee received confirmation from PwC that they are independent of the Company under the requirements of the Auditing Practices Board's Ethical Standards for Auditors.

The lead engagement partner on the Group's audit is John McDonnell who was appointed in March 2016 and in order to ensure continued independence and objectivity it is planned that he will rotate at the end of financial year 2020.

Prior to the finalisation of the 2016 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.

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

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

Having considered all of the above, the Committee concluded that the Group's external auditor remained independent and that the audit process was effective. 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 2017.

#### **Non-Audit Services**

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. The 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, bookkeeping 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 line with the policy, during 2016 all non-audit services and fees were approved by the Audit Committee. The Committee noted that given the appointment of PwC as external auditor consideration was given to the transition of some tax advisory services provided to the Group by PwC. These services related to work that had commenced prior to 2016 and the Committee are satisfied that these services are now either complete or have been transitioned to other providers. The Committee is satisfied that the fees paid to PwC for non-audit work, which amounted to €0.5m and represented 17% of the audit fee, did not compromise their independence or integrity. Full details of the fees paid to the external auditors during the year are outlined in note 3 to the financial statements.

### **COMPANIES ACT 2014**

During the year, the Audit Committee supported the Board of Directors of the Company in the process of adopting a Directors' Compliance Policy statement as required by S.225 of the Companies Act 2014. The Committee received a report 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 report, the Committee recommended the adoption by the Board of the Compliance Policy Statement which is included in the Report of the Directors on page 76.

# WHISTLEBLOWING AND FRAUD ARRANGEMENTS

During the year, the Head of Internal Audit provided the Committee with summaries of fraudulent matters outlining the details of such incidents, key control failures, any financial loss and actions for improvement.

The Group employs a comprehensive and confidential reporting procedure to assist management and employees to work together to address fraud, abuse, and other misconduct in the workplace. The Committee reviewed the operation of these procedures during the year and were satisfied with the process.

### DIRECTORS' REPORT

# NOMINATION COMMITTEE REPORT



Michael Dowling
Chairman of the
Nomination Committee

Dear Shareholder.

On behalf of the Nomination Committee, I am pleased to present our report for the year ended 31 December 2016.

A primary focus of the Committee in 2016 was Executive succession planning. Stan McCarthy who has served as Group CEO since January 2008 notified the Board of his intention to retire from the Group in 2017. On 20 February 2017 the Board, upon the recommendation of the Committee, appointed Edmond Scanlon as CEO Designate with immediate effect. Edmond will succeed Stan as CEO on 1 October 2017 and will join the Board on that date. Details of the selection process are outlined on page 91 of this report. Edmond joined the Group's Graduate Development Programme in 1996 and has considerable knowledge of and experience in the Group's

operations having served in senior leadership positions in a number of the Group's businesses across the world.

During the year under review, we continued to lead the Board refreshment process ensuring the composition of the Board has the correct balance of skills, knowledge, experience, diversity, and independence. Non-Executive Director succession planning was a particular focus given the planned retirement of four non-Executive Directors. In February 2017, on the recommendation of the Committee, the Board approved the appointment of two new non-Executive Directors, Gerard Culligan and Con Murphy with effect from 1 June 2017.

The refreshment of the three Board Committees was also considered following which Tom Moran was appointed to the Remuneration Committee in February 2016.

An external review of the Committee was conducted by Independent Audit Limited (Independent Audit) during 2016 and the outcome of this review was that the Committee is performing well. Further details are set out on page 91.

The Committee continues to plan strategically for Board refreshment and senior management succession.

**Michael Dowling** 

Chairman of the Nomination Committee

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# **ROLE AND RESPONSIBILITIES**

The main roles and responsibilities of the Committee, which were reviewed and updated during 2016, are set out in written terms of reference which are available from the Group's website (www.kerrygroup.com) or upon request.

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

# **Primary Responsibilities of the Nomination Committee**

- Evaluating the balance of skills, experience, independence, knowledge and diversity of the Board to ensure optimum size and composition;
- Ensuring an appropriate nomination process is in place for Board appointments;
- Ensuring a formal induction plan is in place for each new Director on appointment;
- Reviewing a candidate's other commitments to ensure that on appointment, a candidate has sufficient time to undertake the role;
- Reviewing the Board Diversity Policy and the setting of measurable objectives for reporting the policy;
- Making recommendations to the Board on the appointment and re-appointment of both Executive and non-Executive Directors;
- Making recommendations to the Board concerning membership of Board Committees in consultation with the Chairmen of the Committees;
- Ensuring plans and processes are in place for succession planning for Directors, including the Chairman, Senior Independent Director, non-Executive Directors and senior management positions; and
- Overseeing the conduct of the annual evaluation of the Board and its Committees.

The Chairman of the Board or an independent non-Executive Director of the Company acts as the Chairman of the Committee. The Chairman of the Board does not chair the Committee when it is dealing with the matter of succession to the chairmanship.

### **COMMITTEE MEMBERSHIP**

During 2016, the Nomination Committee comprised three independent non-Executive Directors; Dr. Hugh Brady, Dr. Karin Dorrepaal, Mr. James Kenny and was chaired by Mr. Michael Dowling, Chairman of the Board.

The Board ensures that the membership of the Nomination Committee is refreshed in accordance with the Group's Corporate Governance Policy. The augrum for Committee meetings is two and only Committee members are entitled to attend. The Nomination Committee may extend an invitation to other persons to attend meetings to be present for particular agenda items as required. The Company Secretary acts as Secretary of the Committee.

The Committee may obtain independent professional advice and secure the attendance of advisors with relevant experience and expertise if it considers this necessary. During 2016, the Committee engaged the services of Mr. Peter Lever, a UK based independent management consultant to assist with Board refreshment and Executive succession planning. The Committee also engaged Heidrick & Struggles, a UK based company specialising in Executive and non-Executive board member recruitment services, to assist in the process. Neither Mr. Lever or Heidrick & Struggles have any other connection to the Group. In addition, STS Technical Services, a US based Consultancy Group, were engaged to support Executive leadership development programmes.

# **COMMITTEE MEETINGS**

The Committee met four times during the year and there was full attendance by Committee members at all meetings.

# **NOMINATION PROCESS**

There is a formal, rigorous and transparent procedure determining the nomination for appointment of new Directors to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Committee engages specialist recruitment consultants to assist in the identification and selection process. The Committee makes recommendations to the Board concerning appointments of Executive or non-Executive Directors, having considered the blend of skills, experience, independence and diversity deemed appropriate and reflecting the global nature of the Company.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any non-Executive Director at the conclusion of their specified term and the reelection of all Directors who are the subject of annual rotation. The terms and conditions of appointment of non-Executive Directors are set out in formal letters of appointment, which are

available for inspection at the Company's registered office during normal office hours and at the Annual General Meeting of the Company.

The key stages in the nomination process are outlined in the following diagram.



- Nomination Committee conducts **Board Evaluation**
- Considers the skill set, experience, balance and diversity of the Board



- If a requirement is identified, Committee prepares a detailed job description outlining the particular skills and experience required
- 3. Search
- Conducts search through third party search agency, Directors or other stakeholders
- Search based on job description identified above

- Screening carried out by third party as selected by the Committee



- Interview and selection process led by the
- Results are reviewed by the Committee who select candidates and recommend them to the Board for approval

# 6. Approval

- Board of Directors consider the candidate(s) from the Committee and approve the candidate(s)
- In accordance with the Articles of Association, all newly appointed Directors are subject to election at the AGM following their appointment.

# **BOARD REFRESHMENT POLICY**

On an ongoing basis the Nomination Committee reviews and assesses the structure, size, composition and overall balance of the Board and makes recommendations to the Board with regard to refreshment and succession planning.

Appointments to the Board are for a three year period, subject to shareholder approval and annual re-election, after consideration of annual performance evaluation and statutory provisions relating to the removal of a Director. The Board may appoint such Directors for a further term not exceeding three years and may consider an additional term if deemed appropriate.

During the year, the Chairman conducted a rigorous review of all non-Executive Directors as part of the Board evaluation process. taking into account the need for progressive refreshment of the Board. The Board explains to shareholders, in the papers accompanying the resolutions to elect and re-elect the non-Executive Directors, why they believe the individual should be reelected based on the results of the formal performance evaluation.

**DIVERSITY POLICY** 

Diversity is fully embraced at Kerry and the Group is committed to having a work environment that is respectful of everyone. In order to achieve a positive and productive workplace, all employees must work together and realise each individual has something unique to contribute to the overall success of Kerry.

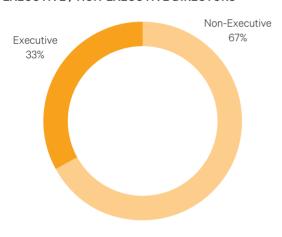
The Group's Diversity and Inclusion policy is an integral part of the Group Code of Conduct ensuring that diversity and inclusion are embedded in Kerry Group's core values. Within this, the Group seeks to recruit, hire and retain the best talent from a diverse mix of backgrounds, with the skills and experiences to drive new ideas, products and services providing a sustained competitive advantage.

The Board believes in the benefits of having a diverse Board and the benefits that it can bring to its effective operation. Differences in background, skills, experiences, nationality and other attributes including gender, are considered in determining the optimum composition of the Board and with the aim to balance it appropriately. All Board appointments are made on merit, with due regard to diversity.

In reviewing Board composition and agreeing a job specification for new non-Executive Director appointments, the Committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to complement the range and balance of skills, knowledge and experience on the Board. As part of the identification process external consultants are required to present a list of potential candidates, who meet the stated specification and requirements, comprising candidates of diverse backgrounds for consideration by the Committee.

A summary of the Group's current position relating to Board and senior management diversity is provided below:

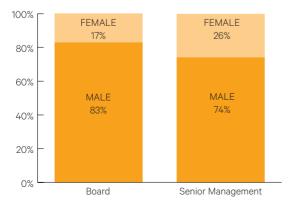
# **EXECUTIVE / NON-EXECUTIVE DIRECTORS**



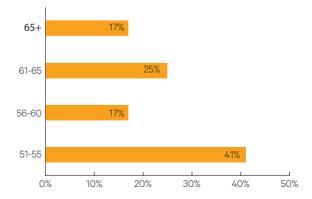
# **BOARD TENURE (YEARS)**



# DIVERSITY



# **BOARD AGE PROFILE**



# **KEY ACTIVITIES**

The key activities of the Committee throughout the year are detailed below:

Subject	Committee Activity						
Group CEO Succession	During the year the Chairman led the Committee in the process for the selection of a successor to the Group CEO. The Committee was supported by Philip Toomey (SID) and Mr. Peter Lever (independent management consultant). The Committee also engaged the services of Heidrick & Struggles (specialists in Executive and non-Executive board member recruitment) who undertook an external candidate search and review.						
	Edmond Scanlon, the current President and CEO of the Kerry Asia Pacific region was identified as a candidate through the Group Executive succession planning process. Edmond was formally President of Kerry China and prior to that held other senior leadership positions worldwide.						
	The Committee recommended the appointment of Edmond as CEO Designate and the recommendation was approved by the Board on 20 February 2017. Edmond will assume the role of CEO on 1 October 2017.						
Appointment of Non-Executive	During 2016, the Committee particularly focused on the refreshment of the Board following the planned retirement of three non-Executive Directors at year end and Patrick Casey's retirement at the end of April 2017.						
Directors	Historically, the Group's largest shareholder, Kerry Co-Operative Creameries Limited (KCC) nominated candidates for appointment to the Board. Prior to their appointment such candidates required the approval and recommendation of the Committee. The Committee also engaged a specialist recruitment services provider to assist in the recommendation process.						
	In 2016, the Committee, in conjunction with KCC, agreed that the process through which candidates were historically nominated would no longer prevail. However, recognising the dairy heritage origins of the Group, the Committee will continue to consider candidates from the Dairy and Agribusiness sectors for future appointments to the Board but any appointees may not also be members of the Board of KCC.						
	Following a process agreed by the Committee in conjunction with our appointed external advisor, the Committee recommended the appointment of Gerard Culligan and Con Murphy as non-Executive Directors. On 20 February 2017, the Board agreed these appointments which will be effective from 1 June 2017.						
Re-appointment of Directors	The Committee recommended to the Board that all Directors, subject to and seeking re-election, be put forward for re-appointment at the Group's 2017 AGM. This recommendation was based on the outcome of the formal performance evaluation conducted during the year.						
Board Size & Composition	In 2016, as part of its remit, the Committee considered the size and composition of the Board. At 31 December 2015, the Board comprised 15 members. Following the retirement of Patrick Casey and the appointments outlined above, the Board size will reduce to 13 members. The Committee will continue to consider both Board size and composition during 2017.						
Board and Committees	As outlined in detail on pages 80 and 81 an external review of the Board and its Committees took place in 2016. The Committee agreed the terms of reference of the evaluation of the Board and its Committees with Independent Audit.						
Effectiveness Evaluation	The Nomination Committee's evaluation was carried out based on Committee member's responses to Thinking Board, Independent Audit's self-assessment questionnaire software and an interview held between Independent Audit and the Chair and Secretary of the Committee. The Committee considered the outcome of this review. Each recommendation was assessed and an action plan has been developed to address areas for potential improvement.						
	These recommendations will form part of the agenda for Committee meetings in the coming year. The conclusion from the evaluation process is that the Committee is performing well.						
Committee Changes	Resulting from the Committee's ongoing focus on committee membership refreshment, the Committee recommended the appointment of Tom Moran to the Remuneration Committee and this appointment was approved by the Board in February 2016.						
Senior Management Succession	The Committee oversees the Group management development programme and reviews this programme with the Chief Executive before it is presented to the Board.						
AGM 2016 Shareholder Voting	At the 2016 AGM, a significant proportion of votes were cast by shareholders against the re-election of four non-Executive Directors; Michael Ahern, Patrick Casey, James Devane and John Joseph O'Connor, as they were also Directors of KCC.						
	The terms of office of Michael, James and John Joseph ceased on 31 December 2016 and they retired from the Board on that date. As outlined earlier in this report, Patrick will step down from the Board on 30 April 2017. Following Patrick's retirement, no Board member will be a Director of KCC.						

### DIRECTORS' REPORT

# REMUNERATION COMMITTEE REPORT



Joan Garahy Chairperson of the Remuneration Committee

# **SECTION A: CHAIRPERSON'S ANNUAL STATEMENT**

Dear Shareholder.

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016. The Group's remuneration policy is outlined on pages 97 to 100 and remains unchanged since it was approved at the 2016 AGM.

The Committee is confident that the Group's policy operates to the highest standards in achieving its strategic objectives, is properly governed and is in line with best market practice.

# **PAY FOR PERFORMANCE**

The Committee is dedicated to structuring a remuneration policy which is stretching to incentivise performance, with remuneration metrics directly aligned to the Group's business model, strategic objectives and shareholder value.



As outlined in the Strategic Report on page 22, Adjusted Earnings Per Share (EPS) is the key performance metric for measuring the components of growth (i.e. volume and margin expansion). Return on Average Capital Employed (ROACE) is a key measure of the return the Group achieves on its invested capital. Group Free Cash Flow is an important indicator of the cash the Group generates for reinvestment or for return to shareholders.

These three metrics are the main Group metrics which drive the Executive Directors Short Term Incentive Plan (STIP) and Long Term Incentive Plan (LTIP). Together these metrics deliver Total Shareholder Return which aligns the interest of the Executive Directors with that of the shareholders.

### **2016 ANNUAL INCENTIVE**

For 2016, the STIP payouts to Executive Directors were on average 63% of the maximum opportunity.

Although Group performance has been very good over the last five years, the accompanying chart illustrates the challenging and stretching nature of the annual incentive metrics targets set by the company.

# **TSR Growth & Annual Incentive Payout**



# **LONG TERM INCENTIVE PLAN 2014-2016**

The outturn of the 2014-16 LTIP award was 29.4% of maximum opportunity, which was disappointing given that this was the first full year payment from the new LTIP introduced in 2013.

The main factor for this was due to the EPS metric (which accounts for 50% of the award) failing to achieve its threshold over the three year performance period (i.e. 7.8% achieved v 8% threshold). The adverse currency effects encountered last year significantly impacted EPS growth and contributed to the threshold not being achieved.

# 2016 FINANCIAL YEAR

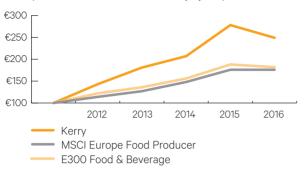
In the face of challenging external global business environment conditions in 2016, and in particular the impact of Brexit on the translation of our sterling profit, the Group again delivered a good financial performance for the year as is shown in the 2016 performance table.

2016 Performance	Target	Results
Adjusted EPS Growth	10%	7.1%
Group Free Cash Flow	€478m	€570m
ROACE	12%	12.9%

The adjusted EPS growth metric came in below the target of 10% for 2016, however it is worth mentioning that, on a constant currency basis, the Group achieved 12.3% adjusted EPS growth.

# **TOTAL SHAREHOLDER RETURN**

# **5 YEAR TOTAL SHAREHOLDER RETURN** (VALUE OF €100 INVESTED ON 31/12/2011)



As can be seen in the Total Shareholder Return graph, since 2011 Kerry has generated a 148% return for shareholders despite the general declines in share price which has occurred in the Food and Beverage industry in late 2016, as a result of changes in investor sentiment post Brexit and the US elections.

Kerry's Total Shareholder Return declined by 10.3% during 2016 mainly as a result of the change in the sterling/euro exchange rate, however it should be noted that this was on the back of significant growth during 2015 of 35%.

# **EXECUTIVE DIRECTOR REMUNERATION POLICY FOR 2017**

The previous three year review cycle of CEO & Executive Director remuneration arrangements was completed in 2015 and formed the basis of pay decisions implemented in 2016. For 2017 the Committee recommend that base pay adjustments for Executive Directors (excluding the CFO) will be in line with general inflation (a range of 2.5% to 3%).

As committed to last year and in recognition of his excellent performance, phase two of the CFO's pay increase will be implemented in 2017. The increase of 11.5% will align his salary closer to the mid-range pay of CFO's in our Irish, UK, USA & European benchmark peer group. No other planned substantive changes will be made to the CEO and Executive Director remuneration in 2017.

We are confident that our Executive Directors will continue to deliver significant value to our shareholders as history has clearly demonstrated and that our performance measures remain relevant, stretching and appropriate.

# **INCENTIVE PLANS**

With the winding up of the 2006 LTIP during 2016, a much simplified remuneration structure is in place for 2017 with only one Short Term and one Long Term Incentive Plan applying to the Executive Directors.

In line with best market practice, malus and clawback provisions apply to the Executive Directors STIP and LTIP and both incentive programmes have built-in two year deferral periods applying to significant elements of their awards.

As illustrated on page 110, all Executive Directors have shareholdings well in excess of the 180% - 200% of basic salary minimum set by the Group, again illustrating their alignment with long term Group strategic objectives and shareholders' interests.

#### **FUTURE INCENTIVE AND PERFORMANCE CONDITIONS**

The Committee believes that the Rewards programme, while challenging and stretching needs also to be realistically capable of rewarding the commitment and performance of the Executive and senior management team over the rolling three year cycles. It needs to bear in mind that external factors, such as currency, can mitigate against a strong underlying performance, e.g. adjusted EPS growth for 2016 on a constant currency basis was 12.3%, but 7.1% on a reported currency basis. The adverse impact of currency has meant no pay-out for this metric, which represents 50% of the LTIP opportunity.

In setting the threshold for the 2017 LTIP award the Committee has taken into account the adjusted EPS performance for 2016 and the market guidance for 2017, together with the other three year rolling performance periods currently inflight. In this regard the Committee has decided to make an adjustment to the adjusted EPS threshold (down from 8% to 6%) for the 2017 award but with the target retained at 10% and maximum at 12%. The Committee believes that the adjustment to threshold, while keeping the adjusted EPS target and maximum stretching, will better incentivise Executive Directors & senior management to continue to deliver shareholder value.

We believe this approach taken in the context of our overall competitive and stretching programme is appropriate and in the best interests of our shareholders.

# NON-EXECUTIVE DIRECTOR REMUNERATION POLICY **FOR 2017**

The last review of non-Executive Director Remuneration levels was undertaken in 2014 and increases were made effective from 1 January 2015. There are no proposed changes to either the Chairperson or other non-Executive Directors fees / Committee fees for 2017.

# REMUNERATION POLICY REVIEW

In line with Group strategy, we have a five year business planning cycle and this is being renewed and reassessed during 2017. In parallel, to ensure remuneration is linked with the plan, we will be reviewing the remuneration policy and will undertake a review of both Executive Director and non-Executive Director remuneration, including Short and Long Term Incentive Plans during 2017. Any recommended changes required to align with the new strategic plan will be implemented from 2018 following shareholder consultation.

### **COMMITTEE PERFORMANCE**

An external third party review of the Remuneration Committee's performance was undertaken during 2016 by Independent Audit Limited. Results from the review found that the Committee was running effectively.

# CONCLUSION

The Committee continues to review the Group's remuneration policy to ensure that it remains aligned to shareholders' interests, is correctly reported in line with relevant legislation and provides the right framework to attract, retain and motivate the Executive Directors to meet the Group's objectives.

As in previous years, the remuneration report is being put to shareholders for an advisory vote. Last year 98% of our shareholders who voted, voted in favour of the report. On behalf of the Remuneration Committee, I believe that we have put together a Rewards programme for 2017 which is again worthy of shareholder support.

Joan Garahy

Chairperson, of the Remuneration Committee

# SECTION B: REMUNERATION COMMITTEE & KEY ACTIVITIES

# **COMMITTEE MEMBERSHIP**

During 2016, the Remuneration Committee comprised four independent non-Executive Directors; Mr. James C. Kenny, Dr. Karin Dorrepaal, Mr. Tom Moran (appointed February 2016) and was chaired by Ms. Joan Garahy. Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 70 to 71.

# **ROLE AND RESPONSIBILITIES**

On behalf of the Board, the Remuneration Committee is responsible for determining the remuneration policy for the CEO and the other Executive Directors on an annual basis. The CEO is invited to attend Remuneration Committee meetings, but does not attend Committee meetings when his own remuneration is discussed. The Committee also has access to internal and external professional advice as required. The Committee follows an annual and tri-annual calendar with matters scheduled and planned well in advance. Decisions are made within agreed reference terms, with additional meetings held as required. In considering the agenda the Committee gives due regard to overall business strategy, the interests of shareholders and the performance of the Group.

An external review of the Remuneration Committee's performance was undertaken during 2016 by Independent Audit Limited. Results from the review found that the Committee was running effectively with only minor administrative areas recommended for improvement.

The main responsibilities of the Committee, which were reviewed and updated during 2016, are set out in its written terms of reference and are available from the Group's website (www.kerrygroup.com) and upon request.

# **Primary Responsibilities of the Remuneration Committee**

- To review the remuneration of the CEO and Executive Directors;
- To review the remuneration of the Chairman and non-Executive Directors:
- To review and approve incentive plan structures and targets;
- To agree the design of all share incentive plans for approval by the shareholders:
- To ensure the contractual terms of Executive Directors are deemed fair and reasonable:
- To place before shareholders at each AGM, a Directors' Remuneration Report outlining the Group's policy and disclosures on remuneration:
- To arrange where appropriate, external benchmarking of overall remuneration levels and the effectiveness of share based incentives and long term incentive schemes;
- To receive recommendations from the CEO and have oversight of the salaries and overall remuneration of senior management;
- To review annually its own performance and terms of reference to ensure it is operating effectively.

# **REMUNERATION COMMITTEE MEETINGS AND ACTIVITIES 2016**

The Committee met four times during the year and there was full attendance by Committee members at the meetings. Tom Moran attended the three meetings held post his appointment on 22 February 2016.

The key activities undertaken by the Committee in discharging its duties during 2016 are set out below:

Subject	Remuneration Committee Activity
Remuneration Report	A review of best practice remuneration reporting was completed during 2016 to ensure compliance with relevant legislation and reporting requirements while also ensuring the delivery of a report, which is transparent and understandable for all shareholders. As part of this review, the Committee considered the recent updates and guidance by the main shareholder representative bodies and proxy agencies, together with the 2014 Irish Companies Act and is satisfied that the Group is complying fully with relevant best practice reporting. The Committee continues to monitor the ongoing discussions and commentary on the pending EU Shareholders' Rights Directive to prepare for its introduction and implementation.
Basic Salary	Following the detailed benchmark review of Executive Directors' salaries which occurred in 2015, during the year the Committee continued to monitor the level of basic salaries of Executive Directors in line with market practice. [See Implementation Section on page 100 for details on the outcome of the review].
Short Term Incentive Plan (STIP)	STIP awards were reviewed during 2016 by the Committee to ensure that the plan targets remain appropriately stretching and aligned with the Group strategy. [See Implementation Section on page 101 for details on the outcome of the review].
Long Term Incentive Plan (LTIP)	The Committee considered the overall effectiveness of the LTIP during 2016 to ensure it is structured appropriately to incentivise Executive Directors and senior management across the Group. [See Implementation Section on page 102 for details on the outcome of the review].
Chairman & Non-Executive Directors' Fees	A detailed benchmark review of the Chairman and non-Executive Directors' fees was undertaken in 2014 with the assistance of Willis Towers Watson. In the intervening years, the Committee continues to monitor the level of the Chairman and non-Executive Directors fees and report to the Board. The Board proposed no changes to fee levels for the Chairman and non-Executive Directors for 2017.

Subject	Remuneration Committee Activity
Shareholder Consultation	The Committee reviewed the results of the vote by shareholders on the "Say on Pay" at its first meeting following the 2016 AGM. The resolution of the shareholder vote was 98% in support of the report.
	In the context of the 2015 review implemented in 2016, the Committee engaged with major institutional shareholders who provided important input and commentary which were considered by the Committee in 2016. These inputs together with inputs received from shareholder representative bodies/governance groups and the result of shareholders votes, informed the final pay change proposals for 2017.
Senior Management Review	Within its terms of reference, there is a requirement for the Committee to have oversight of the salaries and overall remuneration of senior management. Following the benchmark review of senior management remuneration completed in 2015, a further review was undertaken during 2016 of the next layer of management. Further recommendations and proposed changes following this review were presented to the Committee for information purposes.
Committee Evaluation	The Remuneration Committee's evaluation was carried out based on Committee members responses to Thinking Board, Independent Audit Limited's self-assessment questionnaire software and an interview held between Independent Audit and the Chair and Secretary of the Committee. The Committee considered the evaluation report which concluded that the Committee is running effectively with only minor administrative areas recommended for improvement, which will form part of the agenda for Committee meetings in the coming year.

# **REMUNERATION COMMITTEE ADVISORS**

The Remuneration Committee is authorised by the Board to appoint external advisors and Willis Towers Watson is the advisor to the Remuneration Committee. Willis Towers Watson has also provided management remuneration information and pension advisory services to the Group during the period under review. The Committee ensures that the nature and extent of these other services does not affect the advisor's independence. The fees incurred with Willis Towers Watson for advising the Committee in 2016 were €107,000 (2015: €244,000).

# SECTION C: REMUNERATION POLICY

There have been no changes to the remuneration policy report since it was approved by shareholders at the 2016 AGM and it is reproduced in full below for ease of reference.

The Group's Executive Director remuneration policy is to ensure that executive remuneration properly reflects their duties and responsibilities, and is sufficient to attract, retain and motivate people of the highest quality internationally. Remuneration includes performance related elements designed to align Directors' interests with those of shareholders and to encourage performance at the highest levels in line with the Group's strategy. In setting remuneration levels, the Committee has regard to comparable Irish. UK, USA and European companies in the sector in terms of both the size of the Group and the geographical spread and complexity of its business. It also considers pay and employment conditions elsewhere in the Group.

The Committee also considers the level of pay in terms of the balance between the fixed and variable elements of remuneration. Fixed elements of remuneration are defined as basic salary, pension and other benefits with the variable elements being performance related incentives with both short and long term components.

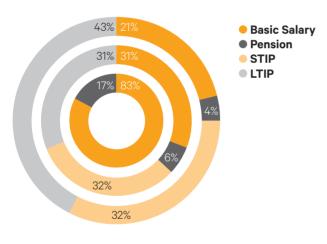
A high proportion of Executive Directors' potential remuneration is based on short term and long term performance related incentive programmes. By incorporating these elements, the Remuneration Committee believes that the interest and risk appetite of the Executive Directors is properly aligned with the interests of the shareholders and other stakeholders.

Necessary expenses incurred undertaking company business, are reimbursed and/or met directly so that Executive Directors are no worse off on a net of tax basis for fulfilling company duties.

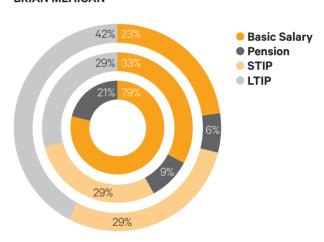
### ILLUSTRATION OF REMUNERATION POLICY

The following diagram shows the minimum, target and maximum composition balance between the fixed and variable remuneration components for each Executive Director effective for 2017. The inner most circle represents the minimum potential scenario for remuneration, with the middle circle representing target and the outer circle representing maximum potential.

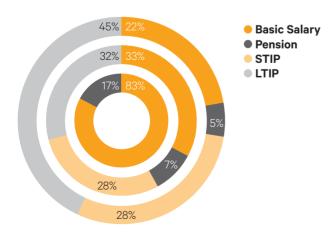
## **STAN MCCARTHY**



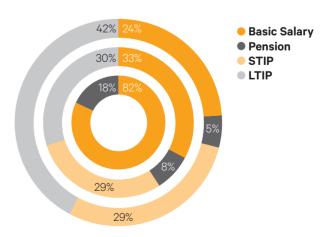
# **BRIAN MEHIGAN**



# **GERRY BEHAN**



# **FLOR HEALY**



# SERVICE CONTRACTS

The Group does not have any service contracts with its Executive Directors which extend beyond one year.

# NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

Non-Executive Directors' fees, which are determined by the Board as a whole, fairly reflect the responsibilities and time spent by the Directors on the Group's affairs. In determining the fees, which are set within the limits approved by shareholders, consideration is given to both the complexity of the Group and the level of fees paid to non-Executive Directors in comparable companies. On a three year cycle, the Committee will review non-Executive Directors' fees and present any recommendations to the full Board for approval. This review was last undertaken in 2014 and increases were made effective from 1 January 2015. Fees remained unchanged in 2016 and will again be reviewed in 2017 in accordance with the three year review cycle. Non-Executive Directors do not participate in the Group's incentive plans, pension arrangements or other elements of remuneration provided to the Executive Directors. No payments are made to non-Executive Directors for expenses, other than those incurred wholly and directly in the course of their appointments which are paid on a net of tax basis.

# **REMUNERATION POLICY TABLE**

The following table details the remuneration policy for the Group's Executive Directors:

Purpose and Link to Strategy	Operation	Opportunity	Performance Metrics		
Basic Salary					
Reflects the value of the individual, their skills and	<ul> <li>Remuneration Committee sets the basic salary and benefits of each Executive Director</li> </ul>	– Set at a level to attract, retain and	– Not applicable		
experience	<ul> <li>Determined after taking into account a number of elements including the Executive Directors'</li> </ul>	motivate Executive Directors			
Competitive salaries are set to attract, retain and motivate	performance, experience and level of responsibility	- Reviewed annually			
Executive Directors to deliver	– Paid monthly in Ireland and bi-weekly in the US	<ul> <li>Full benchmark review undertaken</li> </ul>			
strong performance for the Group in line with the Group's	<ul> <li>Salary is referenced to job responsibility and internal/external market data</li> </ul>	every three years			
strategic objectives	<ul> <li>Pay conditions across the Group are also considered when determining any basic salary adjustments</li> </ul>	considered when determining any basic salary			
Benefits					
To provide a competitive benefit package aligned with the role	These benefits primarily relate to the use of a company car or a car allowance	– Not applicable	– Not applicable		
and responsibilities of Executive Directors	<ul> <li>Business travel costs are reimbursed and/or met directly so that Executive Directors are no worse off on a net of tax basis for fulfilling company duties</li> </ul>				
Short Term Performance Relate	d Incentives (STIP)*				
To incentivise the achievement, on an annual basis, of key	<ul> <li>Achievement of predetermined earnings growth and other performance targets set by the</li> </ul>	– Maximum opportunity is 125% -	– Adjusted Earnings Per Share		
performance metrics and short	Remuneration Committee	150% of basic salary	– Group Free Cash		
term goals beneficial to the Group and the delivery of the	<ul> <li>Performance targets aligned to published strategic targets</li> </ul>	<ul> <li>Target opportunity is 70% of maximum</li> </ul>	Flow - Business		
Group's strategy	– 75% of the award payable in cash	opportunity for on-	Performance Metrics		
A 25% deferral in shares/options provides a 2 year retention	- 25% awarded by way of shares/options to be issued two years after vesting following a deferral period	target performance	– Personal and Strategic Objectives		
element and aligns Executive Directors interests with shareholders' interests	- Malus & clawback provisions are in place for awards under the STIP (see below)				

Purpose and Link to Strategy	Operation	Opportunity	Performance Metrics
Long Term Performance Related	Incentives (LTIP)*		
Retention of key personnel and incentivisation of sustained performance against key Group strategic metrics over a longer period of time  Share based to provide alignment with shareholder interests  A 50% deferral provides a	<ul> <li>The awards vest depending on a number of separate performance metrics being met over a three year performance period</li> <li>Conditional awards over shares or share options in the Group</li> <li>50% of the earned award delivered at vesting date</li> <li>50% of the earned award issued following a two year deferral period (i.e. giving a combined performance period and deferral period of 5 years)</li> <li>Malus &amp; clawback provisions are in place for awards</li> </ul>	<ul> <li>Maximum opportunity is 180% - 200% of basic salary</li> <li>Target opportunity is 50% of maximum opportunity for on- target performance</li> </ul>	<ul> <li>Adjusted Earnings Per Share</li> <li>Total Shareholder Return</li> <li>Return on Average Capital Employed</li> </ul>
retention element and aligns Executive Directors' interests with shareholders' interests	under the LTIP (see below)		
Shareholding Requirement			
Maintain alignment of the interests of the shareholders and the Executive Directors and commitment over the long term	<ul> <li>Executive Directors are expected to build and to hold shares in the Company to a level not less than 180% - 200% of their basic salary over a five year time period</li> </ul>	– Not applicable	– 180% - 200% of basic salary
Pension			
To provide competitive retirement benefits to attract and retain Executive Directors	<ul> <li>Executive Directors in the US participate in the Group's defined benefit and defined contribution pension schemes</li> </ul>	– Not applicable	– Not applicable
	- Irish resident Executive Directors receive a contribution to an after tax savings scheme		

<sup>\*</sup> The Committee may at its discretion, amend or vary the performance conditions of the STIP related Incentives and LTIP related Incentives where it is deemed appropriate.

## **PENSIONS**

A review of pension provisions for the Executive Directors impacted by the lifetime earnings cap in Ireland was concluded during 2012. The Irish resident Executive Directors have thus been offered a contribution (on a cost neutral basis to the Company) to an after tax savings scheme as an option, in lieu of pension benefits. Both Executive Directors affected have taken up this option. The US resident Executive Directors participate in a US defined contribution scheme and a US defined benefit pension scheme, which was constructed to deliver the same equivalent pension benefit as delivered under the Irish defined benefit scheme, which calculates pension benefit based on basic pay.

# SHAREHOLDING REQUIREMENT

All Executive Directors have significantly exceeded the minimum shareholding requirement. [See table on page 110 in section D for details].

# **DILUTION**

The Group offers Executive Directors and senior management the opportunity to participate in share based schemes as part of the Group's remuneration policy. In line with best practice guidelines, the company ensures that the level of share awards granted under these schemes over a rolling ten year period does not exceed 10% of the Group's share capital. The dilution resulting from vested share awards/share options for the ten year period to 31 December 2016 is 1.7%.

The potential future dilution level from unvested share awards/share options as a result of these schemes is a further 0.7%.

# **MALUS / CLAWBACK**

The Committee has the discretion to reduce or impose further conditions on the STIP and LTIP awards prior to vesting (malus). It further has the discretion to recover incentives paid within a period of two years from vesting (clawback), where the Audit Committee determines that:

- a material misstatement of the Company's audited financial results or a serious wrongdoing has occurred; and
- as a result of that misstatement or serious wrongdoing, there will need to be a restatement of the accounts and that the incentive awarded was in excess of the amount that would have been awarded, had there not been such a misstatement.

Any recalculation shall be effected in such manner and subject to such procedures as the Group determines to be measured and appropriate, including repayment of any excess incentive or set off against any amounts due or potentially due to the participant under any vested or unvested incentive awards.

Other elements of remuneration are not subject to malus or clawback provisions.

### CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

When setting the remuneration policy for Executive Directors, the Remuneration Committee takes into account the pay and employment conditions of the other employees in the Group. Senior management are invited to participate in both the STIP and LTIP to incentivise performance through the achievement of short term and long term objectives and through the holding of shares in the Group. While the Committee does not consult directly with employees when setting remuneration for Executive Directors, it does take into account information provided by our external advisors, Willis Towers Watson, in conjunction with feedback provided by the Human Resource function.

### **IMPLEMENTATION OF POLICY**

#### **BASIC SALARY AND BENEFITS**

The Remuneration Committee sets the basic salary and benefits for each Executive Director. A detailed benchmark review of Executive Directors' salaries was last completed in 2015. The Committee determines the basic salary and benefits for Executive Directors after taking into account a number of elements including the Directors' performance, experience and level of responsibility. The Committee also considers the pay conditions across the Group when determining any basic salary adjustments in addition to considering comparable Irish, UK, USA and European companies in the sector.

The 2015 review, performed in conjunction with Willis Towers Watson, determined that there was a shortfall between our CEO and CFO's remuneration and that of our Irish, UK, USA and European market peers and increases were implemented with effect from 1 January 2016. As outlined in last year's report, in the case of the CFO, the 2016 increase was part one of a phased process to align his basic salary closer to the market. Phase two will be implemented with effect from 2017 and will provide for an increase of 11.5%. This will complete the phased implementation of the total increase agreed last year. For 2017, the basic salaries of the other Executive Directors will be adjusted by 2.5% - 3% in line with inflation.

Benefits relate primarily to the use of a company car/car allowance. Any travel arrangements or travel costs required for business purposes will also be met by the Group, on a net of tax basis.

# SHORT TERM PERFORMANCE RELATED INCENTIVE AWARD (STIP)

The structure of the scheme is reviewed regularly to ensure that it develops in line with the Group's strategic goals. A review of the STIP was completed in 2016 to ensure the metrics are appropriate, linked to strategy and appropriately calibrated. The performance targets remain stretching and support our business strategy and the ongoing enhancement of shareholder value through a focus on return for shareholders, increasing profit and cash generation. Furthermore, the malus and clawback provisions of the STIP, which include a two year clawback provision (outlined on page 100), are deemed to be appropriate and effective.

	CE	CEO % of award Target Max		CFO % of award Target Max		ste tion	CEO Consumer Foods		
	% of a					% of award		ward	
<b>Group Metrics</b>	Target					Max	Target M		
Adjusted EPS Growth	49%	70%	49%	70%	35%	50%	35%	50%	
Group Cash Flow	14%	20%	14%	20%	14%	20%	14%	20%	
Personal and Strategic	7%	10%	7%	10%	7%	10%	7%	10%	
Total	70%	100%	70%	100%	56%	80%	56%	80%	
Business Metrics									
Business Performance Metrics	-	-	-	-	14%	20%	14%	20%	
Total	70%	100%	70%	100%	70%	100%	70%	100%	

# **ALIGNMENT TO STRATEGY**

The above are considered key metrics as they align with the Group's strategic objectives while also ensuring the long term operational and financial stability of the Group. Adjusted EPS Growth was chosen as a key performance metric as it encompasses all the components of growth that are important to the Group's stakeholders. Group Free Cash Flow is key to ensuring there are sufficient funds available for reinvestment or for return to shareholders. Personal and Strategic objectives, that are relevant to each Executive's specific area of responsibility, are key in ensuring strategic and functional goals are capable of being rewarded. These metrics represent 100% of the overall maximum weighting for the CEO and the CFO and 90% of the overall maximum weighted average for all four Executive Directors.

The business metrics reflect the operational performance of the business.

25% of the overall annual incentive payment is delivered through shares/share options, with the remaining 75% being delivered in cash. A two year deferral period is in place for share/share option awards made under the scheme.

# HOW REMUNERATION LINKS WITH STRATEGY

Performance Measure	Performance Measure Strategic Priority				
Adjusted EPS	Delivery of the Group's growth strategy	STIP & LTIP			
Group Free Cash Flow	Cash generation for reinvestment or return to shareholders	STIP			
Personal & Strategic	Sustainability and talent to grow the business and our people	STIP			
TSR	Continued delivery of shareholder value	LTIP			
ROACE	Balance growth and return	LTIP			

See Group Key Performance Indicators (KPIs) on pages 22 and 23 for more information on the link between the performance metrics used for incentive purposes and the Group's strategy.

# LONG TERM PERFORMANCE RELATED INCENTIVE PLAN (LTIP)

LTIP Award Year		2017		2016				
Performance Metrics	Threshold	Threshold Target		Threshold	Target	Maximum		
EPS (50% weighting)								
Kerry's EPS growth per annum	6%	10%	12%	8%	10%	12%		
% of award which vests	25%	50%	100%	25%	50%	100%		
ROACE (20% weighting)								
ROACE Return Achieved	10%	12%	14%	10%	12%	14%		
% of award which vests	25%	50%	100%	25%	50%	100%		
Relative TSR (30% weighting)								
Position of Kerry in		Median	Greater		Median	Greater		
peer group	Median	to 75th%	than 75th%	Median	to 75th%	than 75th%		
% of award which vests	30%	30% - 100%	100%	30%	30% - 100%	100%		

The Committee reviewed the overall effectiveness of the LTIP in 2016 to ensure it is structured appropriately to incentivise Executive Directors and senior management across the Group. The level of opportunity under this scheme available to the CEO and Executive Director's (currently 200%/180%) is to remain unchanged following the review. Similarly, the LTIP performance metrics and weightings were also reviewed in 2016 and are to remain unchanged.

The Committee believes that the Rewards programme, while challenging and stretching, also needs to be realistically capable of rewarding the commitment and performance of the Executive and senior management team over the rolling three year cycles. It needs to bear in mind that external factors, such as currency, can mitigate against a strong underlying performance, e.g. adjusted EPS growth for 2016 on a constant currency basis was 12.3%, but 7.1% on a reported currency basis. The adverse impact of currency has meant no pay-out for this metric, which represents 50% of the LTIP opportunity.

In setting the threshold for the 2017 LTIP award the Committee has taken into account the adjusted EPS performance for 2016 and the market guidance for 2017, together with the other three year rolling performance periods currently inflight. In this regard the Committee has decided to make an adjustment to the adjusted EPS threshold (down from 8% to 6%) for the 2017 award but with the target retained at 10% and maximum at 12%. The Committee believes that the adjustment to threshold while keeping the adjusted EPS target and maximum stretching, will better incentivise Executives and senior management to continue to deliver shareholder value.

We believe this approach taken in the context of our overall competitive and stretching programme is appropriate and in the best interests of our shareholders.

# REMUNERATION POLICY REVIEW

In line with Group strategy, we have a five year business planning cycle and this is being renewed and reassessed during 2017. In parallel, to ensure remuneration is linked with the plan, we will be reviewing the remuneration policy and will undertake a review of both Executive Director and non-Executive Director remuneration, including Short and Long Term Incentive plans during 2017. Any significant changes required to align with the new strategic plan will look to be implemented from 2018 following shareholder consultation.

# SHAREHOLDER ENGAGEMENT

The Committee considers the guidelines issued by the bodies representing the major institutional shareholders and the feedback provided by such shareholders, when completing its annual review of the Group's Executive Remuneration policies and practices. This Committee welcomes this engagement and commits to informing the major institutional shareholders of any significant changes to policy. We look forward to continuing this consultation in 2017.

### SECTION D: 2016 DIRECTORS' REMUNERATION

Disclosures regarding Directors' remuneration have been drawn up on an individual Director basis in accordance with the requirements of the 2014 Irish Companies Act, the UK Corporate Governance Code, the Irish Annex, the Irish Stock Exchange and the UK Listing Authority.

The information in the tables 1, 4, 5, 6, 7 and 8 below, including relevant footnotes (identified as audited), forms an integral part of the financial statements as described in the basis of preparation on page 126. All other information in the remuneration report is additional disclosure and does not form an integral part of the financial statements.

## **EXECUTIVE DIRECTORS' REMUNERATION**

As Stan McCarthy and Gerry Behan are paid in the USA in US dollars, the reporting of their year-on-year remuneration can be impacted by the exchange rate movement of the US dollar against the euro. We have therefore shown their remuneration in their home country currency (US dollars) for comparison purposes.

Table 1: Individual Remuneration for the year ended 31 December 2016 (Audited)

	Basic						Performance						
	Salaries		Benefits		Pensi	Pensions <sup>2</sup> Relate		ed <sup>3</sup> LTI		P <sup>4</sup> To		tal	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Stan McCarthy	1,450	1,330	109	109	333	273	1,346	768	768	2,139	4,006	4,619	
Gerry Behan	851	835	31	33	185	173	696	522	478	1,329	2,241	2,892	
Total US \$	2,301	2,165	140	142	518	446	2,042	1,290	1,246	3,468	6,247	7,511	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
Total US \$ in EUR€¹	2,083	1,950	128	128	469	402	1,848	1,162	1,127	3,124	5,655	6,766	
Brian Mehigan²	616	522	29	30	182	143	479	271	339	900	1,645	1,866	
Flor Healy <sup>2</sup>	568	557	14	11	134	126	434	243	361	960	1,511	1,897	
	3,267	3,029	171	169	785	671	2,761	1,676	1,827	4,984	8,811	10,529	

Note 1: The table shows the Executive Directors' pay in the currency of payment to ensure clarity in reflecting the year-on-year payment comparisons.

Note 3: This STIP amount represents 75% delivered in cash with 25% delivered by way of shares/share options which are deferred for two years.

Note 4: The share price used to calculate the value of the LTIP is the average share price for the three months up to the end of the year being reported.

# **BASIC SALARY INCREASES**

A detailed benchmark review of Executive Directors' salaries was completed in 2015, which included amongst other things, a study of comparable Irish, UK, USA and European companies in the sector. The review was designed to ensure basic salaries are reflective of experience, performance, the scope of the roles, changes in responsibilities and also to ensure alignment with the market. Following the review an increase in basic salaries of 9% for the CEO and 18% for the CFO was agreed which is reflected in the table above. The base remuneration levels of the other Executive Directors increased by 2% in line with inflation. The average increase for all employees across the Group in 2016 was approximately 3.6%.

Over the previous seven years to 2016 there had been minimal increases to basic salaries for the CEO, CFO and other Executive Directors (average of circa 2% per annum since 2008). In addition, annual bonus opportunities for the CEO, CFO and Executive Directors have remained unchanged for the same period against stretching targets and difficult economic conditions. Throughout this period the same Executive team have delivered significant value to shareholders in the form of continued Total Shareholder Return growth (in excess of 500% over seven years). In this context, it was agreed that such increases were now merited.

Note 2: The pension figures outlined above for both Stan McCarthy and Gerry Behan include both defined benefit and defined contribution retirement benefits. The Irish Finance Act 2011 established a cap on pension provision by introducing a penal tax charge on any benefits exceeding €2.3m in value. In response to this, the Remuneration Committee decided to offer Executive Directors who are members of the Irish pension scheme the option to have contributions made to a savings plan in lieu of further pension accrual, on an overall cost neutral basis to the Company. Both Brian Mehigan and Flor Healy have opted for the alternative savings plan and the figures included above reflect this including life cover.

# **ANNUAL INCENTIVE OUTCOMES (STIP)**

# **Table 2: Annual Bonus Achievement against Targets**

**Group Financial Metrics: (CEO & CFO - 90% weighting)** 

Me	tric	1. Adjusted EPS (CEO & CFO – 70% weighting)	2. Group Cash Flow (CEO & CFO – 20% weighting)		
ts	Threshold 301.9 cent		€433m		
Targets	Target	332.1 cent	€478m		
	Max	347.2 cent	€524m		
Actual Performance		323.4 cent	€570m		
Bonus Outcome		49.8 %	100%		
Link to Strategy		Key performance metric as it encompasses all the components of growth (volume and margin expansion) that are important to Group stakeholders.	Important indicator of the strength and quality of the business and of the availability to the Group of funds for reinvestment and for return of stakeholders.		

# **Personal and Strategic Objectives & Business Metrics**

Metric		3. Personal and Strategic	4. Business Operating Profit/Cash Flow				
ts	Threshold	0		ŭ.	Target		Performance
argets	Target	7	Measure				
Ë	Max	10			70%		
Actual Performance		7.4	BOP/				76.5%
Bonus Outcome		74%	Cash Flow				70.5%
Link to Strategy		Specific to the Executive's individual areas of responsibility linked to the strategic plan and the priorities of the overall Group.	Measures the underlying profit generated by the business and whether management is converting growth into profit and cash efficiently.			nverting	

# Details of Personal and Strategic Objectives (CEO and CFO – 10% weighting)

Directors	Achievements	<b>Bonus Outcome</b>
CEO	<ul> <li>Effective engagement with major shareholders to explain the strategic direction of the Group, the Group's sustainability objectives and to provide regular updates on performance.</li> </ul>	70%
	• Strong leadership of the Group's talent management process to ensure appropriate structures, resources and succession plans are in place at Executive level.	
CFO	• Support the CEO in effectively engaging with major shareholders to explain the strategic direction of the Group, the Group's sustainability objectives and to provide clear updates on performance.	72.5%
	• Further developed the talent management process in the Finance function to ensure appropriate structures, resources and succession plans are in place.	
	<ul> <li>Significant progress achieved in the deployment of an enhanced end to end and integrated performance management process and ICT system, and in the deployment of a multi functional Global Shared Services strategy.</li> </ul>	
CEO Taste & Nutrition & CEO Consumer	<ul> <li>Successfully led the process of organisation change in the Taste &amp; Nutrition and Consumer Foods businesses including putting in place appropriate structures, resources and succession plans to deliver on the Group's Strategic Objectives.</li> </ul>	77.5%
Foods	<ul> <li>Continued to drive innovation to deliver new products that meet changing consumer preferences and trends, and to leverage our technologies and market insights to provide a superior service to our customers.</li> </ul>	

The Committee considers the metrics shown above to be appropriate and aligned to our strategic plan with a key focus on the Group financial metrics of adjusted EPS and Group Free Cash Flow (overall weighting for CEO and CFO of 90%). These are vital in driving Group growth and ensuring there are sufficient funds available for reinvestment or for return to shareholders.

The Executive Directors are also measured against Personal and Strategic objectives, which focus on improvements within their individual areas of responsibility. Performance against these objectives is determined by the Committee by reference to key targets agreed with the Executives at the start of the year. In addition to the aforementioned metrics, the CEO of Taste & Nutrition and the CEO of Consumer Foods are also assessed on internal business metrics, with specific and measurable targets, necessary to drive strategic growth and profitability in their respective divisions.

In 2016, the Group achieved performance below the target opportunity level set by the Remuneration Committee, with an average weighted pay-out of 63% (89.5% of target opportunity). The Committee believes that the targets were challenging and stretching in the current environment particularly with the 2016 performance outcomes impacted by the change in the sterling/euro exchange rate arising from the decision of the UK to exit the European Union.

As detailed in the 2015 Annual Report, the maximum annual incentive opportunity was increased for all Executive Director's for 2016 with the CEO's maximum opportunity increasing from 100% to 150% of basic salary and for the other Executive Directors the maximum opportunity increased from 90% - 100% to 125% of basic salary.

## LONG TERM INCENTIVE PLAN (LTIP)

# Closed Incentive Plan - 2006 LTIP

From 2016, there is one Long Term Incentive Plan in operation (2013 LTIP) within the Group, the details of which are provided below. Prior to 2016, there were two Long Term Incentive Plans in operation (2006 LTIP and the 2013 LTIP). Shareholders approved the terms and conditions of the 2006 plan in 2006, with the final awards vesting in March 2016, following a three year performance period. There are no outstanding conditional awards to Executive Directors under the 2006 plan.

#### **2013 LTIP**

The terms and conditions of the plan were approved by shareholders at the 2013 AGM. The Remuneration Committee approves the terms, conditions and allocation of conditional awards under the Group's LTIP to Executive Directors, the Company Secretary and senior management. Under this plan, Executive Directors and senior management are invited to participate in conditional awards over shares or share options in the Company.

Subject to performance metrics being met, the LTIP plan will vest over a three year performance period. 50% of the award is delivered at the vesting date with the remaining 50% of the award being delivered following a two year deferral period. This provides for a combined performance period and deferral period of 5 years.

The first conditional awards under this scheme were made to Executive Directors in 2013. Awards made under the plan potentially vest or partially vest three years after the award date if the predetermined performance targets are achieved. The maximum award that can be made to an individual Executive Director under the LTIP over a 12 month period is equivalent to 180% - 200% of basic salary for that period.

An award may lapse if a participant ceases to be employed within the Group before the vesting date.

The market price of the shares on the date of each award outlined above is disclosed in note 28 to the financial statements.

The proportion of each conditional award which vests will depend on the adjusted EPS, TSR and ROACE performance of the Group during the relevant three year performance period.

### **EPS performance test**

Up to 50% of the award vests according to the Group's average adjusted EPS growth over the performance period. This measurement is determined by reference to the growth in Kerry Group's adjusted EPS in each of the three financial years in the performance period in accordance with the vesting schedule outlined in the following table:

	Kerry's EPS growth per annum	Percentage of the Award which Vests
Threshold	8%	25%
Target	10%	50%
Maximum	12%	100%

Below 8% none of the award will vest. Between 8% and 10%, 25% - 50% vesting will occur on a straight line basis. Between 10% and 12%, 50% -100% vesting will occur on a straight line basis.

The growth in Kerry's average adjusted EPS is calculated by reference to the adjusted EPS of the financial year immediately preceding the start of the performance period and the adjusted EPS of the last financial year of the performance period.

The outcome of the measurement of the adjusted EPS condition in relation to the 2014 awards is that at an outcome of 7.8% the threshold condition of 8% was not achieved.

Should the Committee consider it appropriate, following any change in the Group's accounting policies, accounting period or method of calculating adjusted EPS, it may make such adjustments as are necessary to put the calculations of adjusted EPS for the relevant accounting periods on a broadly comparable basis, after consulting the Irish Association of Investment Managers.

### **TSR** performance test

30% of the award vests according to the Group's TSR performance over the period measured against the TSR performance of a peer group of listed companies over the same three year performance period. The peer group consists of Kerry and the following companies:

Aryzta	Givaudan	Kellogg	Sensient Technologies
Chr. Hansen*	Glanbia	McCormick & Co.	Symrise
Barry Callebaut	Greencore	Nestle	Tate & Lyle
Corbion	Danone	Novozymes	Unilever
General Mills	IFF	Premier Foods	

<sup>\*</sup> It was agreed for 2015 onwards to replace Associated British Foods with Chr. Hansen in the peer group.

When assessing whether the performance hurdle has been met, this measurement is determined by reference to the ranking of Kerry's TSR during each of the three financial years identified as the performance period, in comparison with the TSR performance of the companies in the peer group. The awards vest in line with the following table:

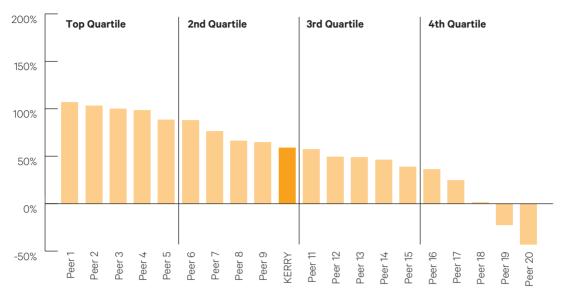
Position of Kerry in the Peer Group	Percentage of the Award which Vests		
Below median	0%		
Median	30%		
Between median and 75th percentile	Straight line between 30% and 100%		
Greater than 75th percentile	100%		

The Committee may make adjustments to the peer group where necessary to take account of mergers, acquisitions, demergers or a company ceasing to trade provided that, as a result, this TSR performance condition will be neither materially easier nor more difficult to achieve. TSR for each company in the peer group shall be calculated on such basis as the Committee, acting reasonably, may specify from time to time, provided that as far as practicable the same method of calculation shall be used for every company in the peer group.

The performance graph below shows Kerry's TSR compared to the peer companies over the three year performance period from 1 January 2014 to 31 December 2016 for the LTIP awards which issued in 2014. These awards have a vesting date on or before 30 April 2017.

The outcome of the measurement of the TSR condition in relation to the 2014 awards is in the 2nd Quartile resulting in an award outcome of 11.2%.

#### 3 YEAR TSR: KERRY AND COMPARATOR 1 JAN 2014 - 31 DEC 2016



See chart on page 111, which illustrates the Group's TSR performance from 2008 to 2016.

#### **ROACE** performance test

20% of the award vests according to the Group's ROACE over the performance period. ROACE represents a good perspective on the Group's internal rate of return and financial added value for shareholders. ROACE supports the strategic focus on growth and margins through ensuring cash is reinvested to generate appropriate returns.

This measurement will be determined by reference to the ROACE in each of the three financial years included in the performance period:

	Return on Average Capital Employed	Percentage of the Award which Vests
Threshold	10%	25%
Target	12%	50%
Maximum	14%	100%

Below 10% none of the award will vest. Between 10% and 12%, 25% - 50% vesting will occur on a straight line basis. Between 12% and 14%, 50% - 100% vesting will occur on a straight line basis.

The outcome of the measurement of the ROACE condition in relation to the 2014 awards is a ROACE of 13.6% which resulted in a reward outcome of 18.2%.

Table 3: Overall Outcome of the 2014 LTIP Award vesting in 2017

Long Term	TSR		EPS	Actual	ROACE	<b>Actual Vesting</b>	
Incentive	Performance	<b>Actual Vesting</b>	Performance	Vesting	Performance	of ROACE	Total %
Plan	(30% of Award)	of TSR Award	(50% of Award)	of EPS Award	(20% of Award)	Award	Vested
2013 LTIP	Second	11.2%	7.8% growth*	0%	13.6%*	18.2%	29.4%
Plan	Quartile*						

<sup>\*</sup> See TSR, EPS and ROACE tables above for details of performance metrics.

#### **NON-EXECUTIVE DIRECTORS' REMUNERATION PAID IN 2016**

Table 4: Remuneration paid to non-Executive Directors in 2016 (Audited)

	Fees 2016	Fees 2015
	€	€
Michael Ahern	43,000	43,000
Hugh Brady	78,000	78,000
Paddy Casey	43,000	43,000
James Devane	43,000	43,000
Karin Dorrepaal	78,000	69,666
Michael Dowling	230,000	230,000
Joan Garahy	93,000	93,000
James C. Kenny	97,000	97,000
John Joseph O'Connor	43,000	43,000
Philip Toomey	98,000	98,000
Tom Moran*	76,333	16,167
	922,333	853,833

<sup>\*</sup> Appointed to the Board on 29 September 2015 and to the Remuneration Committee on 22 February 2016.

Non-Executive Directors' remuneration consists of fees only. No payments are made to non-Executive Directors for expenses, other than those incurred wholly and directly in the course of their appointments.

The following table shows the Executive Directors' and Company Secretary's interests under the LTIP. Conditional awards at 1 January 2016 relate to awards made in 2013, 2014 and 2015 which have a three year performance period. The 2013 awards vested in 2016. The 2014 awards will potentially vest in 2017 and 2015 awards will potentially vest in 2018. The market price of the shares on the date of each award is disclosed in note 28 to the financial statements.

#### EXECUTIVE DIRECTORS' AND COMPANY SECRETARY'S INTERESTS IN LONG TERM INCENTIVE PLAN

Table 5: Individual Interests in LTIP (Audited)

	LTIP Scheme	Conditional Awards at 1 January 2016	Share Awards vested during the Year	Share Option Awards vested during the year	Share Awards Relinquished during the year	Conditional Awards made during the year	Conditional Awards at 31 December 2016	Share price at date of conditional award made during year
Directors								
Stan McCarthy	- 2006 LTIP	20,527	(14,430)	-	(6,097)	-	-	
	- 2013 LTIP	95,902	(12,112)	-	(10,613)	32,537	105,714	€79.80
Brian Mehigan	- 2006 LTIP	9,722	-	(6,835)	(2,887)	-	-	
	- 2013 LTIP	42,062	-	(5,566)	(4,876)	13,905	45,525	€79.80
Flor Healy	- 2006 LTIP	10,368	-	(7,289)	(3,079)	-	-	
	- 2013 LTIP	44,858	-	(5,935)	(5,201)	12,818	46,540	€79.80
Gerry Behan	- 2006 LTIP	12,753	(8,965)	-	(3,788)	-	-	
	- 2013 LTIP	59,815	(7,525)	-	(6,594)	19,102	64,798	€79.80
Company Secre	etary							
Brian Durran	- 2006 LTIP	3,112	-	(2,188)	(924)	-	-	
	- 2013 LTIP	9,522	-	(925)	(810)	2,960	10,747	€79.80

Conditional awards made in 2016 have a three year performance period and will potentially vest in 2019. 50% of the shares/share options which potentially vest under the LTIP, are issued immediately upon vesting. The remaining 50% of the award is issued to participants following a two vear deferral period.

The following table shows the share options which are held by the Executive Directors and the Company Secretary under the STIP and LTIP:

Table 6: Share Options held under the STIP and LTIP (Audited)

	Share Options outstanding at 1 January 2016	Share Options exercised during the Year	Share Options vested during the Year*	Share Options outstanding at 31 December 2016	Exercise price per Share
Directors					
Brian Mehigan	66,655	(11,098)	13,251	68,808	€0.125
Flor Healy	90,049	(4,400)	13,985	99,634	€0.125
Company Secreta	ry				
Brian Durran	24,518	(8,230)	3,385	19,673	€0.125

<sup>\* 50%</sup> of share options vested under the 2013 LTIP are subject to a two year deferral period. 25% of the 2015 STIP payment vested in 2016 is paid in share options and is also subject to a two year deferral period. These share options vested in March 2016 cannot be exercised until after March 2018.

Once vested, share options under the LTIP can be exercised for up to seven years before they lapse. For share options subject to the two year deferral period, they can be exercised for up to five years following the end of the two year deferral period, before they lapse i.e. seven years following the vest date.

#### **EXECUTIVE DIRECTORS' PENSIONS**

The pension benefits of each of the Executive Directors during the year are outlined in the following table. The pension benefits included below relate to defined benefit pension plans only.

Table 7: Defined Benefit - Pensions Individual Summary (Audited)

	Accrued benefits on leav	ing service at end of year	
	Increase during year (excluding inflation) €'000	Accumulated total at end of year €'000	Transfer value of increase in accumulated accrued benefits €'000
Stan McCarthy	84	1,000	1,267
Brian Mehigan <sup>1</sup>	75	-	-
Flor Healy <sup>1</sup>	5	255	112
Gerry Behan	14	412	76
2016	178	1,667	1,455
2015	44	1,793	440

Note 1: For Brian Mehigan and Flor Healy, pension accrual has ceased from 2011, driven by the impact of the lifetime cap. Instead, contributions are paid to a savings plan from this date. This is shown within pensions in the Executive Directors' remuneration table. During the year Brian Mehigan transferred the value of his past service accrued benefit from the Company's defined benefit scheme into the Company's defined contribution scheme.

#### **PAYMENTS TO FORMER DIRECTORS**

There were no payments made to former Directors or connected persons in 2016 (2015: €nil).

#### **PAYMENTS FOR LOSS OF OFFICE**

There were no payments for loss of office in 2016 (2015: €nil).

#### **DIRECTORS' AND COMPANY SECRETARY'S INTERESTS**

There have been no contracts or arrangements with the Company or any subsidiary during the year, in which a Director of the Company was materially interested and which was significant in relation to the Group's business.

The interests of the Directors and the Company Secretary of the Company and their spouses and minor children in the share capital of the Company, all of which were beneficial unless otherwise indicated, are shown below:

Table 8: Directors and Company Secretary Shareholdings (Audited)

	31 December	31 December	31 December	1 January	1 January	1 January
	2016	2016 Share	2016	2016	2016	2016
	Ordinary Shares	Options	Total	Ordinary Shares	Share Options	Total
	Number	Number	Number	Number	Number	Number
Directors						
Michael Ahern	3,241	-	3,241	3,241	=	3,241
Gerry Behan	57,969	-	57,969	49,465	-	49,465
- Deferred <sup>1</sup>	6,562	-	6,562	3,610	-	3,610
Hugh Brady	-	-	-	-	-	-
Paddy Casey	20,052	-	20,052	20,052	-	20,052
James Devane	4,994	-	4,994	4,994	-	4,994
Karin Dorrepaal	-	-	-	-	-	-
Michael Dowling	4,200	-	4,200	4,200	=	4,200
Joan Garahy	1,050	-	1,050	1,050	=	1,050
Flor Healy	58,210	95,409	153,619	58,210	87,862	146,072
- Deferred <sup>1</sup>	-	4,225	4,225	-	2,187	2,187
James C. Kenny	-	-	-	-	=	-
Stan McCarthy	127,105	-	127,105	149,177	-	149,177
- Deferred <sup>1</sup>	10,866	-	10,866	5,693	-	5,693
Brian Mehigan	40,334	64,164	104,498	40,334	64,164	104,498
- Deferred <sup>1</sup>	-	4,644	4,644	-	2,491	2,491
John Joseph O'Connor	20,232	-	20,232	21,932	-	21,932
Philip Toomey	6,000	-	6,000	6,000	-	6,000
Tom Moran	-	-	-	-	-	_
Company Secretary						
Brian Durran	13,000	18,614	31,614	13,000	23,720	36,720
- Deferred <sup>1</sup>	-	1,059	1,059	-	798	798

Note 1: The deferred shares and share options above, relate to 25% of the Executive Directors and Company Secretary's 2014 and 2015 STIP awards and 50% of the 2013 LTIP award (vested in March 2016). These awards are subject to a two year deferral period and will be delivered in shares/share options in March 2017 and March 2018 respectively.

#### **SHAREHOLDING GUIDELINES**

The table below sets out the Executive Directors' shareholding at 31 December 2016 shown as a multiple of basic salary. Please refer to the Remuneration Policy Table on page 99 in Section C for details of the Executive Director shareholding requirements.

Table 9: Individual Shareholdings as a multiple of Basic Salary

	As a Multiple of Basic Salary <sup>1</sup>
Stan McCarthy	7x
Brian Mehigan	12x
Flor Healy	18x
Gerry Behan	5x

Note 1: The share price used to calculate the above is the share price as at 31 December 2016.

#### TSR PERFORMANCE AND CHIEF EXECUTIVE OFFICER REMUNERATION

The graph below illustrates the TSR performance of the Group over the past eight years showing the increase in value of €100 invested the Group's shares from 31 December 2008 to 31 December 2016. Also outlined in the table below, the remuneration of the Chief Executive Officer is calculated in line with the methodology captured under recent legislation which was enacted for UK incorporated companies.

#### **8 YEAR TOTAL SHAREHOLDER RETURN** (VALUE OF €100 INVESTED ON 31/12/2008)

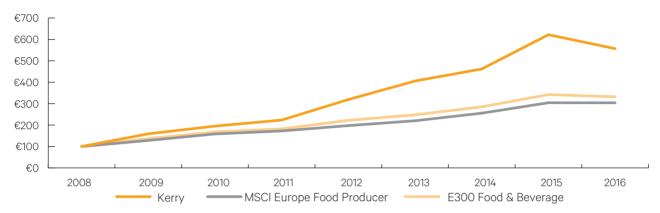


Table 10: Remuneration paid to the CEO 2009 - 2016

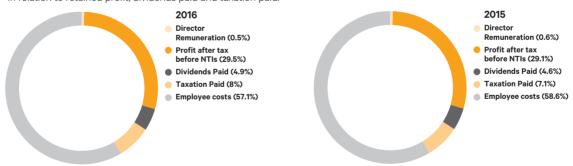
Chief Executive Officer	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000
Total remuneration \$'000	2,434	2,804	4,596	4,528	4,742	4,366	4,619	4,006
Annual incentive achieved as a % of maximum	57%	90%	73%	74%	70%	57%	58%	62%
LTIP achieved as a % of maximum	N/A <sup>1</sup>	N/A <sup>1</sup>	100%	100%	100%	91.9%	61.8%2	29.4%

Note 1: There was no LTIP with a performance period ending in 2009 or 2010.

Note 2: This is the combined average of the 2015 LTIP paid out from the 2006 and 2013 plans.

#### **RELATIVE IMPORTANCE OF SPEND ON PAY**

The total amount spent on Executive Director remuneration (including Long Term Incentive Plan) and overall employee pay is outlined below in relation to retained profit, dividends paid and taxation paid.



#### STATEMENT ON SHAREHOLDER VOTING

Below is an overview of the voting which took place at the most recent AGM to approve the Directors' Remuneration Report.

Table 11: 2016 AGM - Votes on Remuneration

<b>Total Votes Cast</b>	Votes For	Votes Against	Votes Withheld/Abstained
98,942,291	96,591,185	2,351,106	1,230,733
	97.6%	2.4%	

The Committee appreciates the level of support shown by the shareholders for the Remuneration Report and is committed to continued consultation with shareholders with regard to the remuneration policy.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KERRY GROUP PLC

#### REPORT ON THE FINANCIAL STATEMENTS

#### **OUR OPINION**

In our opinion:

- Kerry Group plc's consolidated financial statements and company financial statements (the "financial statements") give a true and fair view of the Group's and the company's assets, liabilities and financial position as at 31 December 2016 and of the Group's profit and the Group's and the company's cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

# SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in note 1 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the consolidated financial statements comply with IFRSs as issued by the IASB.

#### WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report, comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2016:
- the Consolidated Income Statement and Consolidated
   Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements and are described as being an integral part of the financial statements as set out in the Basis of preparation on page 126. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

#### **OUR AUDIT APPROACH**

Overview



- Overall Group materiality: €31.5m which represents 5% of profit before taxation and non-trading items.
- We conducted audit work in 39 reporting components. We paid particular attention to these components due to their size or characteristics and to ensure appropriate audit coverage. An audit on the full financial information of 35 components and specified procedures on selected account balances of a further 4 components were performed.
- Taken together, the reporting components where an audit on the full financial information was performed accounted for in excess of 90% of Group revenues and 90% of Group profit before taxation and non-trading items.
- Goodwill and indefinite life intangible assets impairment assessment
- Business combinations
- Taxation
- Pension liabilities

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal

controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

#### Area of focus

#### Goodwill and indefinite life intangible assets impairment assessment

The Group has goodwill and indefinite life intangible assets of €3.1 billion at 31 December 2016 representing approximately 42% of the Group's total assets at year end (see note 12). The most significant allocation of the carrying value of goodwill and indefinite life intangible assets relates to the America's region and to the Taste and Nutrition segment.

These assets are subject to impairment testing on an annual basis or more frequently if there are indicators of impairment.

We focused on this area given the scale of the assets and because the determination of whether an impairment charge for goodwill or indefinite life intangible assets was necessary involves significant judgement in estimating the future results of the business.

#### **Business combinations**

The Group completed 4 acquisitions during 2015, for which the fair value of assets and liabilities, including brand related intangibles were determined provisionally.

The Group was required to update these provisional fair values in the current year (note 31).

We focused on this area as significant judgement is exercised in selecting an appropriate valuation methodology and determining appropriate assumptions such as discount rate and excess earnings rate.

#### How our audit addressed the area of focus

Our audit team assisted by our valuation experts interrogated the Group's impairment models and evaluated the methodology followed and key assumptions used.

We assessed management's future cash flow forecasts, and the process by which they were drawn up, including comparing them to the latest Board approved business plan and testing the underlying calculations.

We also considered the appropriateness of the Group's forecast growth rate assumptions used in the cash flow forecasts and to calculate terminal values by comparing them to independent sources, (for example, OECD statistics) of projected growth rates for each region. We also considered the Group's past record of achieving strategic objectives.

We challenged management's calculation of the discount rates used by recalculating the cost of capital (adjusted to reflect risks associated with each model) using observable inputs from independent external sources.

We also performed our own sensitivity analysis on the impact of changes in key assumptions on the impairment assessment, for example the cash flows, discount rate and the rates of growth assumed by management. We assessed the appropriateness of the related disclosures within the financial statements. The directors have described their impairment review in detail in note 12.

We obtained and evaluated the reports prepared by management's valuation specialists to value brand related intangibles.

We performed procedures to assess the reasonableness of the assumptions applied in valuing such assets, ensuring they were valued on a market participant basis.

We were assisted by our in house valuation experts who assessed the reasonableness of the material valuation methodologies and assumptions used by the Group, in particular the excess earnings approach applied for the valuation of know-how, the relief from royalty approach in valuing trademarks and patents and consideration of a normal return from the assets acquired.

We performed sensitivity analysis around the key drivers of the valuation models including the excess earnings rate and the discount rate applied to the cash flow forecasts.

We also assessed the appropriateness of the related disclosures within note 31 to the financial statements.

#### Area of focus

#### **Taxation**

The global nature of the Group means that it operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business. Tax legislation is open to different interpretations and the tax treatments of many items is uncertain. Tax audits can require several years to conclude and transfer pricing judgements may impact the Group's tax liability. Management judgement and estimation is needed to determine the liability required for these exposures.

This area required our focus due to its inherent complexity and the estimation and judgement involved in calculating such liabilities.

#### **Pension liabilities**

The Group operates pension plans in a number of jurisdictions principally, Ireland, the UK and USA As at 31 December 2016 the deficit on the Retirement Benefit Obligation amounted to €352.8million. The liability in respect of these plans is valued on an actuarial basis and this valuation is subject to a number of assumptions, the most significant of which is the discount rate.

Assumptions in respect of mortality, inflation rates, salary and pension increases are also important.

We focussed on this area because a modest change in the assumptions above can result in a material change in the amount of the overall deficit.

#### How our audit addressed the area of focus

We obtained an understanding of the Group tax strategy through discussions with management and the Group's in-house tax specialists.

The team, assisted by PwC International and Irish taxation specialists, challenged judgements used and estimates made by management to determine the provision for uncertain tax positions. This included evaluating the assumptions and methodologies used by the Group in calculating tax liabilities.

We read the relevant correspondence between the Group and relevant tax authorities.

Our in-house actuarial experts considered and challenged the reasonableness of the actuarial assumptions used by management regarding discount rates, salary and pension increases, inflation and mortality rates, by comparing the assumptions to in-house benchmark data.

We considered the disclosures at note 26, including the sensitivity analysis in relation to key actuarial assumptions.

#### How we tailored the audit scope

The Group is structured along two business segments: Taste and Nutrition and Consumer Foods across 28 countries. The majority of the Group's components are supported by one of three principal shared service centres in Ireland, Malaysia and the United States.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls including those performed at the Group's shared service centres. and the industry in which the Group operates. As this was our first year as auditors of the Group, our planning and transition procedures included a review of the predecessor auditor's working papers to obtain an understanding of the audit work performed on opening balances. In addition, a two day meeting between the Group team, members of the component teams and management was held as part of our audit planning and transition. These procedures assisted the team in determining the type of work that needed to be performed on the individual financial statement line

items, depending on risk assessment and materiality and where such work should be completed, at component, shared service centre and Group level.

We determined that an audit of the full financial information should be performed at 35 components due to their size or risk characteristics and to ensure appropriate coverage. These 35 components span 15 countries and included components that control central Group functions such as Treasury and Employee Benefits. Taken collectively these components represent the principal business of the Group and account for in excess of 90% of Group revenue and 90% of Group profit before tax and non-trading items. Specific audit procedures on certain balances and transactions were performed at 4 of the remaining reporting components primarily to ensure appropriate audit coverage.

The Group team performed the audit of the Central function components and component auditors within PwC ROI and from other PwC network firms operating under our instruction performed the audit on all other components and the required supporting audit work at each of the three principal shared service centres.

The Group team were responsible for the scope and direction of the audit process. Where the work was performed by component auditors, we determined the level of involvement the Group team needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The Group team has commenced a programme of planned site visits that is designed so that senior team members will visit the full scope audit locations regularly on a rotational basis. In the current year, subsequent to the planning and transition meeting referred to above, representatives from the Group team visited component locations in Ireland, the UK, the USA, Asia Pacific and South America.

These visits involved meeting with our component teams to confirm their audit approach, discussing and understanding the significant audit risk areas, holding meetings with local management, touring manufacturing facilities and obtaining updates on local laws and regulations and other relevant matters. In addition to the visits noted above, the Group team interacted regularly with the component teams during all stages of the audit including obtaining detailed findings of their transition procedures and subsequent interim audits. Post audit conference calls were held with all in scope audit teams to discuss their final key audit findings memoranda which were reviewed in detail by members of the Group team.

This, together with audit procedures performed by the Group team over IT systems, treasury, the consolidation process and areas of focus including taxation, impairment testing of goodwill and indefinite lived intangible assets, Business Combinations and post-retirement benefits, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	€31.5m
How we determined it	5% of profit before taxation and non-trading items.
Rationale for benchmark applied	We applied this benchmark because in our view this is a metric against which the recurring performance of the Group is commonly measured by its stakeholders and it results in using a materiality level that excludes the impact of volatility in earnings.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was €1m to €25m. Certain components were audited to a local statutory audit materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1.6m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 68, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and company has adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and company's ability to continue as a going concern.

#### OTHER REQUIRED REPORTING

#### CONSISTENCY OF OTHER INFORMATION

#### Companies Act 2014 opinion

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

#### ISAs (UK & Ireland) reporting

1. Constitution to the Association	14/- I
• information in the Annual Report is:	We have no
- materially inconsistent with the information in the audited financial statements; or	exceptions to report.
<ul> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and company acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul>	
• the statement given by the directors on page 76, in accordance with provision C.1.1 of the UK Corporate	We have no
Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced	exceptions to report.
and understandable and provides the information necessary for members to assess the Group's and	
company's position and performance, business model and strategy is materially inconsistent with our	
knowledge of the Group and company acquired in the course of performing our audit.	
• the section of the Annual Report on pages 84 and 85, as required by provision C.3.8 of the Code,	We have no
describing the work of the Audit Committee does not appropriately address matters communicated by us	exceptions to report.
to the Audit Committee.	

# THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:				
• the directors' confirmation on page 81 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.			
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.			
<ul> <li>the directors' explanation on page 68 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.			

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

#### **DIRECTORS' REMUNERATION AND TRANSACTIONS**

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosure of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made, and under the Listing Rules we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

#### **CORPORATE GOVERNANCE STATEMENT**

- In our opinion, based on the work undertaken in the course of our audit of the financial statements:
- the description of the main features of the internal control and risk management systems in relation to the financial reporting process in the Corporate Governance Report; and
- the information required by Section 1373(2)(d) of the Companies Act 2014 in the Report of the Directors; is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014.

- Based on our knowledge and understanding of the company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Report and the Report of the Directors.
- In our opinion, based on the work undertaken during the course of our audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Directors' Report.
- Under the Listing Rules we are required to review the part of the Directors' Report relating to the company's compliance with ten provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

# OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACT 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.

# RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

# OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Directors' Responsibility Statement set out on pages 75 and 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### John McDonnell

for and on behalf of PricewaterhouseCoopers Chartered Accountants and Statutory Audit Firm Dublin

20 February 2017

## **CONSOLIDATED INCOME STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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		Before Non-Trading	Non-Trading		Before Non-Trading	Non-Trading	
		Items	Items	Total	Items	Items	Total
		2016	2016	2016	2015	2015	2015
	Notes	€'m	€'m	€'m	€'m	€'m	€'m
Continuing operations							
Revenue	2	6,130.6		6,130.6	6,104.9	=	6,104.9
Trading profit	2/3	749.6	-	749.6	700.1	-	700.1
Intangible asset amortisation	12	(46.4)	-	(46.4)	(37.4)	=	(37.4)
Non-trading items	5	-	(21.0)	(21.0)	-	9.4	9.4
Operating profit	3	703.2	(21.0)	682.2	662.7	9.4	672.1
Finance income	6	1.1	-	1.1	1.8	-	1.8
Finance costs	6	(71.5)	-	(71.5)	(71.1)	-	(71.1)
Profit before taxation		632.8	(21.0)	611.8	593.4	9.4	602.8
Income taxes	7	(86.7)	8.0	(78.7)	(81.1)	3.7	(77.4)
Profit after taxation and attributable to owners of the parer	nt	546.1	(13.0)	533.1	512.3	13.1	525.4
Earnings per A ordinary share				Cent			Cent
- basic	9			302.9			298.7
- diluted	9			302.0			298.4

## **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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	Notes	2016 €'m	2015 €'m
Profit after taxation and attributable to owners of the parent		533.1	525.4
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Fair value movements on cash flow hedges		29.3	10.3
Cash flow hedges - reclassified to profit or loss from equity	24	(13.3)	2.9
Deferred tax effect of fair value movements on cash flow hedges	17	0.9	(1.4)
Exchange difference on translation and disposal of foreign operations	30	(17.9)	(25.5)
Deferred tax effect of exchange difference on translation of foreign operations	17	-	(0.3)
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement on retirement benefits obligation	26	(170.3)	141.1
Deferred tax effect of re-measurement on retirement benefits obligation	17	25.5	(25.2)
Net (expense)/income recognised directly in other comprehensive income		(145.8)	101.9
Total comprehensive income		387.3	627.3

## **CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2016

		31 December	31 December
	Notes	2016 €'m	2015 €'m
Non-current assets			
Property, plant and equipment	11	1,451.9	1,410.4
Intangible assets	12	3,444.3	3,482.6
Financial asset investments	13	39.3	34.0
Investment in associates	14	40.7	38.9
Non-current financial instruments	23	153.0	174.4
Deferred tax assets	17	52.7	43.2
		5,181.9	5,183.5
Current assets			
Inventories	16	743.0	727.5
Trade and other receivables	19	847.3	831.2
Cash at bank and in hand	23	564.7	236.4
Other current financial instruments	23	80.1	15.7
Assets classified as held for sale	18	4.9	21.5
		2,240.0	1,832.3
Total assets		7,421.9	7,015.8
Current liabilities			
Trade and other payables	20	1,351.6	1,288.6
Borrowings and overdrafts	23	192.5	38.4
Other current financial instruments	23	20.9	25.1
Tax liabilities		95.2	94.1
Provisions	25	30.4	31.7
Deferred income	21	2.8	2.7
		1,693.4	1,480.6
Non-current liabilities			
Borrowings	23	1,867.0	2,011.5
Other non-current financial instruments	23	7.3	6.5
Retirement benefits obligation	26	352.8	305.7
Other non-current liabilities	22	95.1	93.9
Deferred tax liabilities	17	247.2	243.8
Provisions	25	40.8	59.1
Deferred income	21	24.3	24.6
		2,634.5	2,745.1
Total liabilities		4,327.9	4,225.7
Net assets		3,094.0	2,790.1
Issued capital and reserves attributable to owners of the parent			
Share capital	27	22.0	22.0
Share premium		398.7	398.7
Other reserves		(98.0)	(103.9)
Retained earnings		2,771.3	2,473.3
Shareholders' equity		3,094.0	2,790.1

The financial statements were approved by the Board of Directors on 20 February 2017 and signed on its behalf by:

Michael Dowling, Chairman

Stan McCarthy, Chief Executive Officer

### **COMPANY BALANCE SHEET**

AS AT 31 DECEMBER 2016

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		31 December	31 December
		2016	2015
	Notes	€'m	€'r
Non-current assets			
Property, plant and equipment	11	0.6	0.8
Investment in subsidiaries	15	637.7	637.
		638.3	638.5
Current assets			
Cash at bank and in hand	23	0.1	0.
Trade and other receivables	19	99.4	63.
		99.5	63.4
Total assets		737.8	701.9
Current liabilities			
Trade and other payables	20	10.4	9.0
Borrowings and overdrafts	23	0.1	0.
		10.5	10.0
Non-current liabilities			
Deferred income	21	0.1	0.
		0.1	0.
Total liabilities		10.6	10.
Net assets		727.2	691.8
Issued capital and reserves			
Share capital	27	22.0	22.0
Share premium		398.7	398.
Other reserves		40.3	32.
Retained earnings		266.2	238.6
Shareholders' equity		727.2	691.8

The financial statements were approved by the Board of Directors on 20 February 2017 and signed on its behalf by:

Michael Dowling, Chairman

Stan McCarthy, Chief Executive Officer

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Tota €'m
Group:	Notes	e III	em	e iii	e III	· ·
At 1 January 2015		22.0	398.7	(100.6)	1,915.5	2,235.6
Profit after tax attributable to owners of the parent		-	-	-	525.4	525.4
Other comprehensive income		-	-	(12.3)	114.2	101.9
Dividends paid	10	-	-	_	(81.8)	(81.8)
Share-based payment expense	28	-	=	9.0	<del>-</del>	9.0
At 31 December 2015		22.0	398.7	(103.9)	2,473.3	2,790.
Profit after tax attributable to owners of the parent		-	-	-	533.1	533.
Other comprehensive income		-	-	(1.9)	(143.9)	(145.8)
Dividends paid	10	-	-	-	(91.2)	(91.2)
Share-based payment expense	28	-	-	7.8	-	7.8
At 31 December 2016		22.0	398.7	(98.0)	2,771.3	3,094.0
Other Reserves comprise the following:						
	Capital Redemption	Other Undenominated	r Share-Based I Payment	Translation	Hedging	

	Note	Capital Redemption Reserve €'m	Undenominated Capital	Reserve	Translation Reserve €'m	Hedging Reserve €'m	Total €'m
At 1 January 2015		1.7	0.3	21.5	(103.6)	(20.5)	(100.6)
Total comprehensive (expense)/income		-	-	-	(25.5)	13.2	(12.3)
Share-based payment expense	28	-	-	9.0	-	=	9.0
At 31 December 2015		1.7	0.3	30.5	(129.1)	(7.3)	(103.9)
Total comprehensive (expense)/income		-	-	-	(17.9)	16.0	(1.9)
Share-based payment expense	28	-	-	7.8	-	-	7.8
At 31 December 2016		1.7	0.3	38.3	(147.0)	8.7	(98.0)

The nature and purpose of each reserve within shareholders' equity are described in note 36.

## **COMPANY STATEMENT OF CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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	Notes	Share Capital €'m	Share Premium €'m	Other Reserves €'m	Retained Earnings €'m	Total €'m
Company:						
At 1 January 2015		22.0	398.7	23.5	92.4	536.6
Profit after tax	8	-	-	-	228.0	228.0
Other comprehensive income		-	-	-	-	-
Dividends paid	10	=	=	=	(81.8)	(81.8)
Share-based payment expense	28	-	-	9.0	-	9.0
At 31 December 2015		22.0	398.7	32.5	238.6	691.8
Profit after tax	8	-	-	-	118.8	118.8
Other comprehensive income		-	-	-	-	
Dividends paid	10	-	-	-	(91.2)	(91.2)
Share-based payment expense	28	-	-	7.8	-	7.8
At 31 December 2016		22.0	398.7	40.3	266.2	727.2
Other Reserves comprise the following:			Capital Redemption Reserve	Other Undenominated Capital	Share-Based Payment Reserve	Total
	Note		€'m	€'m	€'m	€'m
At 1 January 2015			1.7	0.3	21.5	23.5
Share-based payment expense	28		-	-	9.0	9.0
At 31 December 2015			1.7	0.3	30.5	32.5
Share-based payment expense	28		-	-	7.8	7.8
At 31 December 2016			1.7	0.3	38.3	40.3

The nature and purpose of each reserve within shareholders' equity are described in note 36.

## **CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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	Notes	2016 €'m	2015 €'m
Operating activities	110000		0111
Trading profit	29	749.6	700.1
Adjustments for:			
Depreciation (net)	3	129.8	125.9
Change in working capital	29	61.7	64.8
Pension contributions paid less pension expense		(118.2)	(57.5)
Payments on acquisition integration and restructuring costs		(21.2)	(26.4)
Exchange translation adjustment	30	0.1	(0.7)
Cash generated from operations		801.8	806.2
Income taxes paid		(57.3)	(38.3)
Finance income received		1.1	1.8
Finance costs paid		(62.6)	(48.4)
Net cash from operating activities		683.0	721.3
Investing activities			
Purchase of assets	29	(223.8)	(252.2)
Proceeds from the sale of assets		12.1	12.7
Capital grants received		1.5	10.1
Purchase of businesses (net of cash acquired)	31	(22.2)	(888.1)
Purchase of share in associates	14	(6.7)	-
Income received from associates	14	5.0	-
Disposal of businesses		(2.0)	115.7
Payments relating to previous acquisitions		(0.1)	(0.8)
Net cash used in investing activities		(236.2)	(1,002.6)
Financing activities			
Dividends paid	10	(91.2)	(81.8)
Issue of share capital	27	-	-
Repayment of borrowings		(25.6)	(1,273.8)
Increase in other borrowings		-	1,589.5
Net cash movement due to financing activities		(116.8)	233.9
Net increase/(decrease) in cash and cash equivalents		330.0	(47.4)
Cash and cash equivalents at beginning of the financial year		231.2	278.1
Exchange translation adjustment on cash and cash equivalents	30	(0.1)	0.5
Cash and cash equivalents at end of the financial year	29	561.1	231.2
Reconciliation of Net Cash Flow to Movement in Net Debt			
Net increase/(decrease) in cash and cash equivalents		330.0	(47.4)
Cash inflow/(outflow) from debt financing		25.6	(315.7)
Changes in net debt resulting from cash flows		355.6	(363.1)
Fair value movement on interest rate swaps (net of adjustment to borrowings)		(5.4)	0.2
Exchange translation adjustment on net debt	30	(23.8)	(91.9)
Movement in net debt in the financial year		326.4	(454.8)
Net debt at beginning of the financial year		(1,650.1)	(1,195.3)
Net debt at end of the financial year	23	(1,323.7)	(1,650.1)

## **COMPANY STATEMENT OF CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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		2016	2015
	Notes	€'m	€'m
Operating activities			
Trading profit	29	116.0	226.2
Adjustments for:			
Depreciation	11	0.2	0.1
Change in working capital	29	(24.4)	(144.4)
Net cash from operating activities		91.8	81.9
Financing activities			
Dividends paid	10	(91.2)	(81.8)
Issue of share capital	27	-	-
Net cash movement due to financing activities		(91.2)	(81.8)
Net increase in cash and cash equivalents		0.6	0.1
Cash and cash equivalents at beginning of the financial year		(0.6)	(0.7)
Cash and cash equivalents at end of the financial year	29	-	(0.6)

#### **NOTES TO THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

#### STATEMENT OF ACCOUNTING POLICIES

#### General information

Kerry Group plc is a public limited company incorporated in the Republic of Ireland. The registered office address is Prince's Street, Tralee, Co. Kerry, The principal activities of the Company and its' subsidiaries are described in the Business Reviews.

#### **Basis of preparation**

The consolidated financial statements of Kerry Group plc have been prepared in accordance with International Financial Reporting Standards ('IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. The financial statements comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and the notes to the financial statements. The financial statements include the information in the remuneration report that is described as being an integral part of the financial statements. Both the Parent Company and Group financial statements have also been prepared in accordance with IFRSs adopted by the European Union ('EU') which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'). The Group financial statements comply with Article 4 of the EU IAS Regulation. IFRS adopted by the EU differs in certain respects from IFRS issued by the IASB. References to IFRS hereafter refer to IFRS adopted by the EU.

The Parent Company's financial statements are prepared using accounting policies consistent with the accounting policies applied to the consolidated financial statements by the Group.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative financial instruments) and financial asset investments which are held at fair value. Assets classified as held for sale are stated at the lower of carrying value and fair value less costs to sell. The investments in associates are accounted for using the equity method.

The consolidated and company financial statements have been prepared on a going concern basis.

The consolidated financial statements contained herein are presented in euro, which is the functional currency of the Parent Company, Kerry Group plc. The functional currencies of the Group's main subsidiaries are euro, US dollar and sterling.

Certain income statement headings and other financial measures included in the consolidated financial statements are not defined by IFRS. The Group make this distinction to give a better understanding of the financial performance of the business.

In the 2016 consolidated financial statements, the Group has re-presented corresponding 2015 balances to align with current year presentation in income taxes (note 7) and financial instruments (notes 23 and 24). These changes in presentation do not impact on the classification of any line items on the Group's Consolidated Income Statement and Balance Sheet or other primary statements.

The 2015 consolidated balance sheet represents the measurement period adjustments relating to acquisitions made in 2015 in accordance with IFRS 3 'Business Combinations'. The measurement period adjustments are disclosed in note 31 and are reflected in the relevant note comparitives.

#### Basis of consolidation

#### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries), all of which prepare financial statements up to 31 December. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. Control is achieved where the Company has the power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed of during the financial year are included in the Consolidated Income Statement from the date the company gains control until the date the company ceases to control the subsidiary. All inter-group transactions and balances are eliminated on consolidation

#### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. On acquisition of the investment in associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying value of the investment.

The Group's share of its associate's post-acquisition profits or losses is recognised in 'Share of associate profit/(loss) (after tax)' within Trading Profit in the Consolidated Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, less any impairment in value. Where indicators of impairment arise, the carrying amount of the associate is tested for impairment by comparing its recoverable amount with its carrying amount.

#### Basis of consolidation (continued)

Associates (continued)

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated to the extent that they do not provide evidence of impairment. The accounting policies of associates are amended where necessary to ensure consistency of accounting treatment at Group level.

#### Revenue

Revenue represents the fair value of the consideration received or receivable, for taste and nutrition applications and consumer foods branded and non-branded products, from third party customers. Revenue is recorded at invoice value, net of discounts, allowances, volume and promotional rebates and excludes VAT. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually upon shipment, or in line with terms agreed with individual customers and when the amount of revenue and costs incurred can be measured reliably. Revenue is recorded when the collection of the amount due is reasonably assured. An estimate is made on the basis of historical sales returns and is recorded to allocate these returns to the same period as the original revenue is recorded. Rebates and discounts are provided for based on agreements or contracts with customers, agreed promotional arrangements and accumulated experience. Any unutilised accrual is released after assessment that the likelihood of such a claim being made is no longer probable.

#### **Trading profit**

Trading Profit refers to the operating profit generated by the businesses before intangible asset amortisation and gains or losses generated from non-trading items. Trading Profit represents operating profit before specific items that are not reflective of underlying trading performance and therefore hinder comparison of the trading performance of the Group's businesses, either year-on-year or with other businesses.

#### Segmental analysis

Operating segments are reported in a manner consistent with the internal management structure of the Group and the internal financial information provided to the Group's Chief Operating Decision Maker (the executive directors) who is responsible for making strategic decisions, allocating resources, monitoring and assessing the performance of each segment. Trading Profit as reported internally by segment is the key measure utilised in assessing the performance of operating segments within the Group. Other Corporate activities, such as the cost of corporate stewardship and the cost of the kerryconnect programme, are reported along with the elimination of inter-group activities under the heading 'Group Eliminations and Unallocated'. Intangible asset amortisation, non-trading items, net finance costs and income taxes are managed on a centralised basis and therefore, these items are not allocated between operating segments and are not reported per segment in note 2.

The Group has determined it has two reportable segments: Taste & Nutrition and Consumer Foods. The Taste & Nutrition segment manufactures and distributes an innovative portfolio of taste & nutrition solutions and functional ingredients & actives for the global food, beverage and pharmaceutical industries. The Consumer Foods segment manufactures and supplies added value branded and consumer branded chilled food products to the Irish, UK and selected international markets.

#### Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price and other directly attributable costs. Freehold land is stated at cost and is not depreciated. Depreciation on the remaining property, plant and equipment is calculated by charging equal annual instalments to the Consolidated Income Statement at the following annual rates:

- Buildings 2% - 5% - Plant, machinery and equipment 7% - 25% - Motor vehicles 20%

The charge in respect of periodic depreciation is calculated after establishing an estimate of the asset's useful life and the expected residual value at the end of its life. Increasing/(decreasing) an asset's expected life or its residual value would result in a (decreased)/ increased depreciation charge to the Consolidated Income Statement as well as an increase/(decrease) in the carrying value of the asset.

The useful lives of Group assets are determined by management at the time the assets are acquired and reviewed annually for appropriateness. These lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Historically, changes in useful lives or residual values have not resulted in material changes to the Group's depreciation charge.

Assets in the course of construction for production or administrative purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

#### Assets classified as held for sale

Assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if, at the financial year end, the sale is highly probable, the asset is available for immediate sale in its present condition, management is committed to the sale and the sale is expected to be completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

#### Intangible assets

(i) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary entity at the date control is achieved.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Irish/UK GAAP amounts subject to impairment testing. Goodwill written off to reserves under Irish/UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

At the date control is achieved, goodwill is allocated, for the purpose of impairment testing to cash generating units or groups of cash generating units (CGUs) provided they represent the lowest level at which management monitor goodwill for impairment purposes.

#### Intangible assets (continued)

#### (i) Goodwill (continued)

Goodwill is not amortised but is reviewed for indications of impairment at least annually and is carried at cost less accumulated impairment losses, where identified. Impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill (not previously written off to reserves) is included in the determination of the profit or loss on disposal.

#### (ii) Brand related intangibles

Brand related intangibles acquired as part of a business combination are valued at their fair value at the date control is achieved. Intangible assets determined to have an indefinite useful life are not amortised and are tested for impairment at least annually. Indefinite life intangible assets are those for which there is no foreseeable limit to their expected useful life. In arriving at the conclusion that these brand related intangibles have an indefinite life, management considers the nature and type of the intangible asset, the absence of any legal or other limits on the assets use, the fact the business and products have a track record of stability, the high barriers to market entry and the Group's commitment to continue to invest for the long-term to extend the period over which the intangible asset is expected to continue to provide economic benefits. The classification of intangible assets as indefinite is reviewed annually.

Finite life brand related intangible assets are amortised over the period of their expected useful lives, which range from 2 to 20 years, by charging equal annual instalments to the Consolidated Income Statement. The useful life used to amortise finite intangible assets relates to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. Historically, changes in useful lives has not resulted in material changes to the Group's amortisation charge.

#### (iii) Computer software

Computer software separately acquired, including computer software which is not an integral part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and other directly attributable costs.

Computer software is recognised as an asset only if it meets the following criteria:

- an asset can be separately identified;
- it is probable that the asset created will generate future economic benefits:
- the development cost of the asset can be measured reliably:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met.

Computer software is amortised over its expected useful life, which ranges from 3 to 7 years, by charging equal annual instalments to the Consolidated Income Statement. Amortisation commences when the assets are ready for use.

#### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation. They are tested annually for impairment or when indications exist that the asset may be impaired. For the purpose of assessing impairment, these assets are allocated to CGUs using a reasonable and consistent basis for corporate assets. An impairment loss is recognised immediately in the Consolidated Income Statement for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. Value in use is determined as the discounted future cash flows of the CGU. The key assumptions during the financial year for the value in use calculations are discount rates, cash flows and growth rates.

When an impairment loss (other than on goodwill) subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not exceeding its carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is reviewed by assessing the asset's value in use when compared to its carrying value.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised when the carrying value of an asset exceeds its recoverable amount.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost includes raw materials, direct labour and all other expenditure incurred in the normal course of business in bringing the products to their present location and condition. Cost is calculated at the weighted average cost incurred in acquiring inventories. Net realisable value is the estimated selling price of inventory on hand less all further costs to completion and all costs expected to be incurred in marketing, distribution and selling. Write-downs of inventories are primarily recognised under raw materials and consumables in the Consolidated Income Statement.

#### Income taxes

Income taxes include both current and deferred taxes. Income taxes are charged or credited to the Consolidated Income Statement except when they relate to items charged or credited directly in other comprehensive income or shareholders' equity. In this instance the income taxes are also charged or credited to other comprehensive income or shareholders' equity.

The current tax charge is calculated as the amount payable based on taxable profit and the tax rates applying to those profits in the financial year together with adjustments relating to prior years. Deferred taxes are calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Group is subject to uncertainties, including tax audits, in any of the jurisdictions in which it operates. Amounts accrued in respect of such uncertainties are determined based on management's interpretation of the relevant tax laws and likelihood of a successful conclusion. When the final tax outcome for these items is different from amounts initially recorded, such differences will impact the income tax and deferred tax in the period in which such a determination is made, as well as the Group's cash position.

Deferred taxes are calculated based on the temporary differences that arise between the tax base of the asset or liability and its carrying value in the Consolidated Balance Sheet. Deferred taxes are recognised on all temporary differences in existence at the balance sheet date except for:

- temporary differences which arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting or taxable profit or loss, or on the initial recognition of goodwill for which a tax deduction is not available; and
- temporary differences which arise on investments in subsidiaries where the timing of the reversal is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Deferred tax assets are reviewed at each reporting date.

Current and deferred income tax assets and liabilities are offset where taxes are levied by the same taxation authority, there is a legal right of offset between the assets and liabilities and the Group intends to settle on a net basis.

#### **Retirement benefits obligation**

Payments to defined contribution plans are recognised in the Consolidated Income Statement as they fall due and any contributions outstanding at the financial year end are included as an accrual in the Consolidated Balance Sheet.

Actuarial valuations for accounting purposes are carried out at each balance sheet date in relation to defined benefit plans, using the projected unit credit method, to determine the schemes' liabilities and the related cost of providing benefits. Scheme assets are accounted for at fair value using bid prices.

Current service cost and net interest cost are recognised in the Consolidated Income Statement as they arise. Past service cost, which can be positive or negative, is recognised immediately in the Consolidated Income Statement. Gains or losses on the curtailment or settlement of a plan are recognised in the Consolidated Income Statement when the curtailment or settlement occurs. Re-measurement on retirement benefits obligation, comprising actuarial gains and losses and the return on plan assets (excluding amounts included in net interest cost) are recognised in full in the period in which they occur in the Consolidated Statement of Comprehensive Income.

The defined benefit liability recognised in the Consolidated Balance Sheet represents the present value of the defined benefit obligation less the fair value of any plan assets. Defined benefit assets are also recognised in the Consolidated Balance Sheet but are limited to the present value of available refunds from, and reductions in future contributions to, the plan.

#### **Provisions**

Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated Balance Sheet when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that the Group will be required to settle the obligation: and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the amount required to settle the present obligation at the balance sheet date, after taking account of the risks and uncertainties surrounding the obligation.

The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances. Provisions are disclosed in note 25 to the consolidated financial statements.

#### Non-trading items

Certain material items, by virtue of their nature and amount, are disclosed separately in order for the user to obtain a proper understanding of the financial information. These items relate to events or circumstances that are not related to normal trading activities and are labelled collectively as 'non-trading items'.

Non-trading items refers to gains or losses on the disposal of businesses, disposal of assets (non-current assets and assets classified as held for sale), costs in preparation of disposal of assets, material acquisition transaction costs and material acquisition integration and restructuring costs.

Non-trading items are disclosed in note 5 to the consolidated financial statements.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the financial year it is incurred.

Development expenditure is assessed and capitalised as an internally generated intangible asset only if it meets all of the following criteria:

- it is technically feasible to complete the asset for use or sale;
- it is intended to complete the asset for use or sale;
- the Group has the ability to use or sell the intangible asset;
- it is probable that the asset created will generate future economic benefits;
- adequate resources are available to complete the asset for sale or use: and
- the development cost of the asset can be measured reliably.

Capitalised development costs are amortised over their expected economic lives. Where no internally generated intangible asset can be recognised, product development expenditure is recognised as an expense in the financial year it is incurred. Accordingly, the Group has not capitalised product development expenditure to date.

Grants of a capital nature are accounted for as deferred income in the Consolidated Balance Sheet and are released to the Consolidated Income Statement at the same rates as the related assets are depreciated. Grants of a revenue nature are credited to the Consolidated Income Statement to offset the matching expenditure.

#### Dividend

Dividends are accounted for when they are approved, through the retained earnings reserve. Dividends proposed do not meet the definition of a liability until such time as they have been approved.

#### **Operating leases**

Annual rentals payable under operating leases are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

#### **Share-based payments**

The Group has granted share-based payments to Executive Directors and senior executives under a long term incentive plan and to Executive Directors under a short term incentive plan.

The equity-settled share-based awards granted under these plans are measured at the fair value of the equity instrument at the date of grant. The cost of the award is charged to the Consolidated Income Statement over the vesting period of the awards based on the probable number of awards that will eventually vest, with a corresponding credit to shareholders' equity.

For the purposes of the long term incentive plan, the fair value of the award is measured using the Monte Carlo Pricing Model. For the short term incentive plan, the fair value of the expense equates directly to the cash value of the portion of the short term incentive plan that will be settled by way of shares/share options.

At the balance sheet date, the estimate of the level of vesting is reviewed and any adjustment necessary is recognised in the Consolidated Income Statement and in the Statement of Changes in Equity.

#### **Foreign currency**

Foreign currency transactions are translated into functional currency at the rate of exchange ruling at the date of the transaction. Exchange differences arising from either the retranslation of the resulting monetary assets or liabilities at the exchange rate at the balance sheet date or from the settlement of the balance at a different rate are recognised in the Consolidated Income Statement when they occur.

On consolidation, the income statements of foreign currency subsidiaries are translated into euro at the average exchange rate. If this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, a weighted average rate is used. The balance sheets of such subsidiaries are translated at the rate of exchange at the balance sheet date. Resulting exchange differences arising on the translation of foreign currency subsidiaries are taken directly to a separate component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate.

On disposal of a foreign currency subsidiary, the cumulative translation difference for that foreign subsidiary is recycled to the Consolidated Income Statement as part of the profit or loss on disposal.

#### **Borrowing costs**

Borrowing costs incurred for qualifying assets, which take a substantial period of time to construct, are added to the cost of the asset during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed to the Consolidated Income Statement in the period in which they are incurred.

#### **Business combinations**

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the date the Group assumes control of the acquiree. Acquisition related costs are recognised in the Consolidated Income Statement as incurred. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held investment in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Certain assets and liabilities are not recognised at their fair value at the date control was achieved as they are accounted for using other applicable IFRSs. These include deferred tax assets/liabilities and also any assets related to employee benefit arrangements.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the valuation of the fair value of assets and liabilities acquired is still in progress. Those provisional amounts are adjusted during the measurement period of one year from the date control is achieved when additional information is obtained about facts and circumstances which would have affected the amounts recognised as of that date.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS's.

Any fair value adjustments in relation to acquisitions completed prior to 1 January 2010 have been accounted for under IFRS 3 'Business Combinations (2004)'.

#### **Investments in subsidiaries**

Investments in subsidiaries held by the Parent Company are carried at cost less accumulated impairment losses.

#### Financial instruments

Financial assets and financial liabilities are recognised on the Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs, except for those classified as fair value through profit or loss, which are initially measured at fair value.

All financial assets are recognised and derecognised on a trade date basis, where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe of the market concerned.

#### Financial instruments (continued)

Financial assets and liabilities are offset and presented on a net basis in the Consolidated Balance Sheet, only if the Group holds an enforceable legal right of set off for such amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously. In all other instances they are presented gross in the Consolidated Balance Sheet.

Financial assets and liabilities are classified into specified categories in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. These categories are as follows:

- available-for-sale financial assets;
- loans and receivables:
- financial assets at fair value through profit or loss (FVTPL);
- held to maturity investments;
- financial liabilities measured at amortised cost; and
- financial liabilities at fair value through profit or loss (FVTPL).

The classification is determined at the time of initial recognition of the financial asset or liability and is based upon its nature and purpose.

#### (i) Available-for-sale financial assets

Group financial asset investments are classified as available-for-sale as they are non-derivative assets and are not designated at FVTPL on initial recognition. Available-for-sale investments are stated at their fair value at the balance sheet date. Movements in fair value are recorded in other comprehensive income until the asset is disposed of unless there is deemed to be an impairment on the original cost, in which case the loss is taken directly to the Consolidated Income Statement. Upon disposal, the fair value movement in other comprehensive income is transferred to the Consolidated Income Statement.

Quoted market prices are used to determine the fair value of listed shares where there is an active market. Where there is not an active market, a valuation model is used to determine the fair value of shares. A market is deemed not to be active when a low level of trading exists and willing buyers and sellers are not readily available.

#### (ii) Loans and receivables

Loans and receivables consist primarily of trade and other receivables and cash and cash equivalents.

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are stated at amortised cost, which approximates fair value given the short term nature of these assets which are neither past due more than 3 months or impaired. An allowance for doubtful trade receivables is created based on incurred loss experience or where there is objective evidence that amounts are irrecoverable. Movements in this allowance are recorded in 'other external charges' which is included within Trading Profit in the Consolidated Income Statement.

Cash and cash equivalents carried at amortised cost consists of cash at bank and in hand, bank overdrafts held by the Group and short term bank deposits with a maturity of three months or less from the date of placement. Cash at bank and in hand and short term bank deposits are shown under current assets on the Consolidated Balance Sheet. Bank overdrafts are shown within 'Borrowings and overdrafts' in current liabilities on the Consolidated Balance Sheet but are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows. The carrying amount of these assets and liabilities approximates to their fair value.

(iii) Financial assets at fair value through profit or loss (FVTPL) Financial assets are classified as FVTPL when the financial assets are either held for trading or they are designated upon initial recognition as FVTPL.

Certain derivatives that are not designated and effective as a hedging instrument are classified as held for trading. The Group does not have any other financial assets classified as held for trading.

#### (iv) Held to maturity investments

The Group currently does not have any held to maturity investments.

#### (v) Financial liabilities measured at amortised cost

Other non-derivative financial liabilities consist primarily of trade and other payables and borrowings. Trade and other payables are stated at amortised cost, which approximates to their fair value given the short term nature of these liabilities. Trade and other payables are non-interest bearing.

Debt instruments are initially recorded at fair value, net of transaction costs. Subsequently they are reported at amortised cost, except for hedged debt. To the extent that debt instruments are hedged under qualifying fair value hedges, the carrying value of the debt instrument is adjusted for changes in the fair value of the hedged risk, with changes arising recognised in the Consolidated Income Statement. The fair value of the hedged item is primarily determined using the discounted cash flow basis.

(vi) Financial liabilities at fair value through profit or loss (FVTPL) Financial liabilities at FVTPL arise when the financial liabilities are either held for trading or they are designated upon initial recognition as FVTPI

The Group classifies as held for trading certain derivatives that are not designated and effective as a hedging instrument. The Group does not have any other financial liabilities classified as held for trading.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when objective evidence highlights that the estimated future cash flows from the investment have been affected.

For quoted and unquoted equity investments classified as availablefor-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment.

For trade receivables, unusual or increasingly delayed payments, increase in average credit period taken or known financial difficulties of a customer, in addition to observable changes in national or local economic conditions in the country of the customer are considered indicators that the trade receivable balance may be impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Consolidated Income Statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to 'other external charges' in the Consolidated Income Statement.

#### Financial instruments (continued)

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty, indicated through unusual or increasingly delayed payments or increase in average credit period taken;
- evidence that the counterparty is entering bankruptcy or financial re-organisation; and
- observable changes in local or economic conditions.

#### Derecognition of financial liabilities

The Group derecognises financial liabilities only when the Group's obligations are discharged, cancelled or expire.

#### Derivative financial instruments and hedge accounting

Derivatives are carried at fair value. The Group's activities expose it to risks of changes in foreign currency exchange rates and interest rates in relation to international trading and long-term debt. The Group uses foreign exchange forward contracts, interest rate swaps and forward rate agreements to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is applied to the derivative instruments where they are effective in offsetting the changes in fair value or cash flows of the hedged item. The relevant criteria required in order to apply hedge accounting is as follows:

- the hedged item and the hedging instrument are specifically identified:
- the hedging relationship is formally documented to identify the hedged risk and how the effectiveness is assessed;
- the effectiveness of the hedge can be reliably measured;
- the hedge must be expected to be highly effective and this is tested regularly throughout its life; and
- a forecast transaction that is the subject of the hedge must be highly probable.

#### Fair value of financial instrument derivatives

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available a discounted cash flow analysis is used based on the applicable yield curve adjusted for counterparty risk for the duration and currency of the instrument, which are observable:

- Foreign exchange forward contracts are measured using quoted forward exchange rates to match the maturities of these contracts: and
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves adjusted for counterparty credit risk.

#### Cash flow hedges

Where derivatives, including forward foreign exchange contracts, forward commodity contracts and floating to fixed interest rate swaps or cross currency swaps are used, they are primarily treated as cash flow hedges. The gain or loss relating to the effective portion of the interest rate swaps and cross currency interest rate swaps is recognised in other comprehensive income and is reclassified to profit or loss in the period when the hedged item is recognised through profit or loss. Any such reclassification to profit or loss is recognised within finance costs in the Consolidated Income Statement and all effective amounts directly offset against movements in the underlying hedged item. Any ineffective portion of the hedge is recognised in the Consolidated Income Statement. The gain or loss relating to the

effective portion of forward foreign exchange contracts and forward commodity contracts is recognised in other comprehensive income and is reclassified to profit or loss in the period the hedged item is recognised through profit or loss. Any ineffective portion of the hedge is recognised in the Consolidated Income Statement. When the hedged firm commitment or forecasted transaction occurs and results in the recognition of an asset or liability, the amounts previously recognised in the hedge reserve, within other comprehensive income are reclassified through profit or loss in the periods when the hedged item is impacting the Consolidated Income Statement.

If a hedge is no longer effective or a hedging relationship ceases to exist, hedge accounting is discontinued prospectively and any cumulative gain or loss on the instrument previously recognised in other comprehensive income is retained in other comprehensive income until the forecasted transaction occurs, at which time it is released to the Consolidated Income Statement. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss in other comprehensive income is transferred to the Consolidated Income Statement immediately.

Cash flow hedge accounting is applied to foreign exchange forward contracts which are expected to be effective in offsetting the changes in fair value of expected future cash flows. In order to achieve and maintain cash flow hedge accounting, it is necessary for management to determine, at inception and on an ongoing basis, whether a forecast transaction is highly probable and whether the hedge is effective.

#### Fair value hedges

Where fixed to floating interest rate swaps are used, they are treated as fair value hedges when the qualifying conditions are met. Changes in the fair value of derivatives that are designated as fair value hedges are recognised directly in the Consolidated Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to exist or the Group revokes the designation. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised over the remaining maturity of the hedged item through the Consolidated Income Statement from that date.

#### Trading derivatives

Certain derivatives which comply with the Group's financial risk management policies are not accounted for using hedge accounting. This arises where the derivatives; a) do not qualify for hedge accounting; b) provide an effective hedge against foreign currency borrowings without having to apply hedge accounting; or c) where management have decided not to apply hedge accounting. In these cases the instrument is reported independently at fair value with any changes recognised in the Consolidated Income Statement. In all other instances, cash flow or fair value hedge accounting is applied.

#### **Critical accounting estimates and judgements**

Preparation of the consolidated financial statements requires management to make certain estimations, assumptions and judgements that affect the reported profits, assets and liabilities.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised.

#### Critical accounting estimates and judgements (continued)

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below and in the respective notes to the consolidated financial statements.

#### Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired or whether a reversal of an impairment of intangible assets (other than on goodwill) should be recorded requires comparison of the value in use for the relevant CGUs (or groups of CGUs) to the net assets attributable to those CGUs. The value in use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows, the expected long term growth rate of the applicable businesses and terminal values. Such estimates and judgements are subject to change as a result of changing economic conditions. Details of the assumptions used and key sources of estimation involved are detailed in note 12 to these consolidated financial statements.

#### Rusiness combinations

When acquiring a business, the Group is required to bring acquired assets and liabilities on to the Consolidated Balance Sheet at their fair value, the determination of which requires a significant degree of estimation and judgement.

Acquisitions may also result in intangible benefits being brought into the Group, some of which qualify for recognition as intangible assets while other such benefits do not meet the recognition requirements of IFRS and therefore form part of goodwill. Judgement is required in the assessment and valuation of these intangible assets. For intangible assets acquired, the Group bases valuations on expected future cash flows. This method employs a discounted cash flow analysis using the present value of the estimated after-tax cash flows expected to be generated from the purchased intangible asset using risk adjusted discount rates, revenue forecasts and estimated customer attrition as appropriate. The period of expected cash flows is based on the expected useful life of the intangible asset acquired.

Depending on the nature of the assets and liabilities acquired, determined provisional fair values may be associated with uncertainty and possibly adjusted subsequently as allowed by IFRS 3.

Business combinations are disclosed in note 31 to the consolidated financial statements.

#### Income taxes and deferred tax assets and liabilities

Significant judgement and a high degree of estimation is required in determining the income tax charge as the Group operates in many jurisdictions and the tax treatment of many items is uncertain with tax legislation being open to different interpretation. Furthermore, the Group can also be subject to uncertainties, including tax audits in any of the jurisdictions in which it operates, which by their nature, are often complex and can require several years to conclude. Amounts accrued for anticipated tax authority review matters are based on estimates of whether additional tax will be due, having regard to all information available on the tax matter. Such estimates are determined based on management judgement, interpretation of the relevant tax laws,

correspondence with the relevant tax authorities and external tax advisors, a probability weighted expected value, and past practices of the tax authorities. Where the final outcome of these tax matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax charge in the period in which such determination is made.

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset exists.

Income taxes and deferred tax assets and liabilities are disclosed in notes 7 and 17 to the consolidated financial statements, respectively.

#### Retirement benefits obligation

The estimation of and accounting for retirement benefits obligation involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, future salary and pension increases and inflation as well as discount rates. The assumptions used by the Group and a sensitivity analysis of a change in these assumptions are described in note 26.

#### Other areas

Other areas where accounting estimates and judgements are required, though the impact on the consolidated financial statements is not considered as significant as those mentioned above, are non-trading items (note 5), property, plant and equipment (note 11), intangible assets (note 12), financial assets investment (note 13), investment in associates (note 14), assets classified as held for sale (note 18), rebates included in trade and other receivables (note 19), financial instruments (notes 23 and 24) and provisions (note 25).

#### **New standards and interpretations**

Certain new and revised accounting standards and new International Financial Reporting Interpretations Committee ('IFRIC') interpretations have been issued and the Group's assessment of the impact of these new standards and interpretations is set out below:

tandards and Interpretatio	ons effective for Kerry Group in 2016 but not material to the results and financial position of the Group:	Effective Date
IFRS 5 (amendment)	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
IFRS 7 (amendment)	Financial Instruments: Disclosures	1 January 2016
IFRS 10 (amendments)	Consolidated Financial Statements	1 January 2016
IFRS 11 (amendment)	Joint Arrangements	1 January 2016
IFRS 12 (amendment)	Disclosure of Interests in Other Entities	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IAS 1 (amendment)	Presentation of Financial Statements	1 January 2016
IAS 16 (amendments)	Property, Plant and Equipment	1 January 2016
IAS 19 (amendment)	Employee Benefits	1 January 2016
IAS 27 (amendment)	Separate Financial Statements	1 January 2016
IAS 28 (amendments)	Investments in Associates and Joint Ventures	1 January 2016
IAS 34 (amendment)	Interim Financial Reporting	1 January 2016
IAS 38 (amendment)	Intangible Assets	1 January 2016
IAS 41 (amendment)	Agriculture	1 January 2016

# Standards and Interpretations which are not yet effective for Kerry Group and are not expected to have a material effect on the results or the financial position of the Group:

#### Effective Date

-	IFRS 2 (amendment)	Classification and Measurement of Share-Based Payment Transactions	1 January 2018
-	IFRS 4 (amendment)	Insurance Contracts	1 January 2018
-	IAS 7 (amendments)	Statement of Cash Flows	1 January 2017
-	IAS 12 (amendments)	Income Taxes	1 January 2017
-	IAS 40 (amendment)	Investment Property	1 July 2018
_	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

#### The following revised standards are not yet effective and the impact on Kerry Group is currently under review:

#### Effective Date

- IFRS 9 Financial Instruments 1 January 2018

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Our initial review of IFRS 9 has indicated that the impact of this new standard on the Groups' results is unlikely to be material.

- IFRS 15 Revenue from Contracts with Customers 1 January 2018

IFRS 15 was issued to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15. Findings from our initial review of IFRS 15 are that the impact of this new standard on the Groups' results is unlikely to be material.

- IFRS 16 Leases 1 January 2019

IFRS 16, published in January 2016, replaces the existing guidance in IAS 17 'Leases'. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. It introduces a single lessee accounting model, which requires a lessee to recognise: assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Early indications from our initial review of IFRS 16 is that this will result in an increase in finance leased assets of approximately €58.0m, and a corresponding increase in financial liabilities of the same amount, on the consolidated balance sheet of the Group's financial statements.

#### 2. ANALYSIS OF RESULTS

The Group has determined it has two reportable segments: Taste & Nutrition and Consumer Foods. The Taste & Nutrition segment manufactures and distributes an innovative portfolio of taste & nutrition solutions and functional ingredients & actives for the global food, beverage and pharmaceutical industries. The Consumer Foods segment manufactures and supplies added value branded and consumer branded chilled food products to the Irish, UK and selected international markets.

	Taste &	Consumer	Group Eliminations and		Taste &	Consumer	Group Eliminations and	
	Nutrition 2016	Foods 2016	Unallocated 2016	Total 2016	Nutrition 2015	Foods 2015	Unallocated 2015	Total 2015
	2010 €'m	2010 €'m	2010 €'m	2010 €'m	2013 €'m	2013 €'m	2013 €'m	2013 €'m
External revenue	4,800.1	1,330.5	-	6,130.6	4,637.5	1,467.4	=	6,104.9
Inter-segment revenue	79.4	2.0	(81.4)	-	78.4	8.3	(86.7)	-
Revenue	4,879.5	1,332.5	(81.4)	6,130.6	4,715.9	1,475.7	(86.7)	6,104.9
Trading profit	716.4	117.3	(84.1)	749.6	662.9	125.7	(88.5)	700.1
Intangible asset amortisation				(46.4)				(37.4)
Non-trading items			_	(21.0)			_	9.4
Operating profit				682.2				672.1
Finance income				1.1				1.8
Finance costs			_	(71.5)			_	(71.1)
Profit before taxation				611.8				602.8
Income taxes				(78.7)				(77.4)
Segment assets and liabilities								
Segment assets	4,441.5	928.3	2,052.1	7,421.9	4,376.9	984.1	1,654.8	7,015.8
Segment liabilities	(1,156.9)	(428.1)	(2,742.9)	(4,327.9)	(1,052.0)	(436.0)	(2,737.7)	(4,225.7)
Net assets	3,284.6	500.2	(690.8)	3,094.0	3,324.9	548.1	(1,082.9)	2,790.1
Other segmental information								
Property, plant and equipment additions	160.7	36.8	2.1	199.6	176.0	36.7	3.7	216.4
Depreciation (net)	109.2	16.2	3.8	129.2	104.0	17.7	4.3	126.0
Intangible asset additions	0.9	0.9	14.7	16.5	1.0	0.6	30.0	31.6
Intangible asset amortisation	19.6	6.1	20.7	46.4	14.0	6.0	17.4	37.4
Information about geographical areas								
	EMEA 2016	Americas 2016	Asia Pacific 2016	Total 2016	EMEA 2015	Americas 2015	Asia Pacific 2015	Total 2015
	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Revenue by location of external customers	2,777.0	2,588.5	765.1	6,130.6	3,013.3	2,307.9	783.7	6,104.9
Segment assets by location	4,510.4	2,373.5	538.0	7,421.9	4,282.1	2,237.7	496.0	7,015.8
Property, plant and equipment additions	83.3	76.9	39.4	199.6	109.1	66.7	40.6	216.4
Intangible asset additions	16.2	0.3	-	16.5	30.9	0.6	0.1	31.6

#### 2. ANALYSIS OF RESULTS (continued)

#### Information about geographical areas (continued)

Kerry Group plc is domiciled in the Republic of Ireland and the revenues from external customers in the Republic of Ireland were €429.4m (2015: €455.0m). The non-current assets located in the Republic of Ireland are €936.8m (2015: €931.9m).

Revenues from external customers include €1,534.8m (2015: €1,710.5m) in the UK and €2,053.1m (2015: €1,789.2m) in the USA. The non-current assets in the UK are €673.3m (2015: €786.7m) and in the USA are €1,385.7m (2015: €1,327.4m).

There are no material dependencies or concentrations on individual customers which would warrant disclosure under IFRS 8 'Operating Segments'.

The accounting policies of the reportable segments are the same as the Group's accounting policies as outlined in the Statement of Accounting Policies.

#### 3. OPERATING PROFIT

Operating profit for the financial year has been arrived at after charging/(crediting) the following operating costs:

		Continuing Operations 2016	Continuing Operations 2015
	Notes	€'m	€'m
Revenue		6,130.6	6,104.9
Less operating costs:			
Raw materials and consumables		3,318.3	3,303.7
Other external charges		469.9	487.9
Staff costs		1,142.0	1,108.8
Depreciation (including impairment)	11	132.8	128.4
Capital grants amortisation	21	(3.0)	(2.5)
Other operating charges		348.0	355.5
Foreign exchange (gains)/losses		(14.1)	40.4
Change in inventories of finished goods		(12.8)	(18.7)
Share of associate (profit)/loss after tax	14	(0.1)	1.3
Trading profit		749.6	700.1
Intangible asset amortisation	12	46.4	37.4
Non-trading items	5	21.0	(9.4)
Operating profit		682.2	672.1
And is stated after charging:			
Research and development costs		260.7	234.2

#### 3. **OPERATING PROFIT** (continued)

#### **Auditors' remuneration**

On 29 March 2016, Deloitte (former auditor) resigned as Auditor of the Group, and on 27 April 2016, PricewaterhouseCoopers (current auditor) were appointed.

	Current	Current	Current	Former	Former	Former
	Auditor	Auditor	Auditor	Auditor	Auditor	Auditor
	Ireland	Other	Worldwide	Ireland	Other	Worldwide
	2016	2016	2016	2015	2015	2015
	€'m	€'m	€'m	€'m	€'m	€'m
Statutory disclosure:						
Group audit	1.2	1.3	2.5	1.5	1.8	3.3
Other assurance services	-	-	-	0.3	0.4	0.7
Total assurance services	1.2	1.3	2.5	1.8	2.2	4.0
Tax advisory services	0.1	0.4	0.5	0.7	1.6	2.3
Other non-audit services	-	-	-	0.4	-	0.4
Total non-audit services	0.1	0.4	0.5	1.1	1.6	2.7
Total auditors' remuneration	1.3	1.7	3.0	2.9	3.8	6.7
Assurance services			83%			60%
Non-audit services			17%			40%
Total			100%			100%

Group audit consists of fees payable for the consolidated and statutory audits of the Group and its subsidiaries. Included in Group audit are total fees of €4,720 (2015: €7,000) which were paid to the Group's auditor in respect of the Parent Company. Reimbursement of auditors' expenses amounted to €0.2m (2015: €0.2m). Non-audit services primarily relate to work that had commenced pre-2016 and these services are now either complete or have been transitioned to other providers.

#### 4. TOTAL STAFF NUMBERS AND COSTS

The average number of people employed by the Group was:

	Taste &	Consumer		Taste &	Consumer	
	Nutrition	Foods	Total	Nutrition	Foods	Total
	2016	2016	2016	2015	2015	2015
	Number	Number	Number	Number	Number	Number
EMEA	5,723	7,117	12,840	5,905	7,252	13,157
Americas	7,088	-	7,088	6,613	=	6,613
Asia Pacific	3,108	-	3,108	3,453	=	3,453
	15,919	7,117	23,036	15,971	7,252	23,223

The aggregate payroll costs of employees (including Executive Directors) were:

	Taste &	Consumer		Taste &	Consumer	
	Nutrition	Foods	Total	Nutrition	Foods	Total
	2016	2016	2016	2015	2015	2015
	€'m	€'m	€'m	€'m	€'m	€'m
EMEA	310.4	271.7	582.1	313.9	293.6	607.5
Americas	461.0	-	461.0	405.8	=	405.8
Asia Pacific	104.2	-	104.2	103.9	=	103.9
	875.6	271.7	1,147.3	823.6	293.6	1,117.2

Social welfare costs of  $\mathbf{\mathfrak{E}91.0m}$  (2015:  $\mathbf{\mathfrak{E}86.6m}$ ) and share-based payment expense of  $\mathbf{\mathfrak{E}7.8m}$  (2015:  $\mathbf{\mathfrak{E}9.0m}$ ) are included in payroll costs. Pension costs included in the payroll costs are disclosed in note 26. Included in the above payroll costs disclosure is  $\mathbf{\mathfrak{E}5.3m}$  (2015:  $\mathbf{\mathfrak{E}8.4m}$ ) which has been capitalised as part of computer software in intangible assets.

#### 5. NON-TRADING ITEMS

		2016	2015
	Notes	€'m	€'m
(Loss)/profit on disposal of businesses and assets	(i)	(1.3)	22.5
Acquisition integration and restructuring costs	(ii)	(19.6)	(7.8)
Impairment of assets held for sale	(iii)	(0.1)	(5.3)
		(21.0)	9.4
Tax	7	8.0	3.7
		(13.0)	13.1

#### (i) Loss on disposal of businesses and assets

Cumulative exchange difference on translation recycled on disposal	30	-
Total consideration received		10.1
Disposal related costs		(2.6)
Cash received		12.7
Consideration		
Net businesses and assets disposed		(11.4)
Assets classified as held for sale		(7.6)
Property, plant and equipment	11	(3.8)
Businesses and assets		
	Notes	€'m
		Total 2016

#### Net cash inflow on disposal:

	Total
	2016
	€'m
Cash	12.7
Less: cash at bank and in hand balance disposed of	-
Less: disposal related costs	(2.6)
	10.1

During the year the Group disposed of property, plant and equipment and assets classified as held for sale primarily in Ireland and the UK and a small business in the Taste & Nutrition segment.

In 2015, the Group disposed of the Pinnacle lifestyle bakery business in Australia from the Taste & Nutrition segment and two businesses in the Consumer Foods segment in the UK. The Consumer Foods businesses were classified as held for sale in 2014. Additionally, the Group disposed of property, plant and equipment and assets classified as held for sale, primarily in the USA and Ireland.

A net tax credit of **€1.0m** (2015: €1.7m) arose on the disposal of businesses and assets.

#### 5. NON-TRADING ITEMS (continued)

#### (ii) Acquisition integration and restructuring costs

During the year, acquisition integration and restructuring costs of €19.6m (2015: €7.8m) related to costs of integrating acquisitions into the Group's operations, primarily Island Oasis and Red Arrow, which were acquired in late 2015. Acquisition integration costs represent additional investment by the Group in the recently acquired businesses, in order to realise their full value and achieve expected synergies. These costs reflect restructuring of operations, integration of R&D and administration functions, redundancies, relocation of resources and transaction expenses in order to integrate the businesses into the existing Kerry operating model.

In the year ended 31 December 2016, a tax credit of €7.0m (2015: €2.0m) arose due to tax deductions available on acquisition integration and restructuring costs.

#### (iii) Impairment of assets held for sale

In 2016, assets classified as held for sale were impaired to their fair value less costs to sell by €3.7m (2015: €5.3m). In addition in 2016 it was determined that the value of the Group's remaining businesses held for sale, would no longer be recovered principally through a sale. As a result, the assets were reclassified from 'Assets classified as held for sale' (note 18). A remeasurement gain of €3.6m was recorded in 'Non-trading items' to recognise the assets at their recoverable amount, which was determined using a value in use calculation.

#### 6. FINANCE INCOME AND COSTS

		2016	2015
	Notes	€'m	€'m
Finance income:			
Interest income on deposits		1.1	1.8
Finance costs:			
Interest payable		(64.1)	(52.6)
Interest rate derivative	24	0.5	(5.0)
		(63.6)	(57.6)
Net interest cost on retirement benefits obligation	26	(7.9)	(13.5)
Finance costs		(71.5)	(71.1)

The interest rate derivative credit/(cost) represents the current year movement for credit value adjustments to the fair values of derivative financial instruments designated in a hedge relationship of €0.5m (2015: (€5.0m)).

#### 7. INCOME TAXES

		2016	2015
	Notes	€'m	€'m
Recognition in the Consolidated Income Statement			
Current tax expense in the financial year		68.6	78.6
Adjustments in respect of prior years		(3.7)	(6.0)
		64.9	72.6
Deferred tax in the financial year	17	13.8	4.8
Income tax expense		78.7	77.4
Included in the above is the following tax charge/(credit) on non-trading items:			
Current tax		0.6	0.4
Deferred tax		(8.6)	(4.1)
	5	(8.0)	(3.7)

The Group considers that the most relevant rate to be used for the reconciliation of the tax expense is the standard corporate tax rate applicable in Ireland of 12.5% in 2016 (2015: 12.5%), as an alternative to the weighted average of the standard tax rates applicable in the jurisdictions in which the Group operates used in previous years. The 2015 comparative has therefore been restated to reflect this method of reconciliation.

The tax on the Group's profits before tax differs from the amount that would arise applying the standard corporation tax rate in Ireland as follows:

	2016	2015
	€'m	€'m
Profit before taxation	611.8	602.8
Taxed at Irish Standard Rate of Tax (12.5%)	76.5	75.4
Adjustments to current tax and deferred tax in respect of prior years	1.3	(2.8)
Net effect of differing tax rates	12.8	16.6
Changes in standard rates of taxes	(2.8)	(2.6)
Income not subject to tax	(2.2)	(2.5)
Utilisation of unprovided deferred tax assets	(5.6)	(6.0)
Other adjusting items	(1.3)	(0.7)
Income tax expense	78.7	77.4

An increase in the Group's applicable tax rate of 1% would reduce profit after tax by €6.1m (2015: €6.0m). Factors that may affect the Group's future tax charge include the effects of restructuring, acquisitions and disposals, changes in tax legislation and rates and the use of brought forward losses.

#### PROFIT ATTRIBUTABLE TO KERRY GROUP PLC

In accordance with section 304 (2) of the Companies Act, 2014, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filling it with the Registrar of Companies. The Company's profit for the financial year is €118.8m (2015: €228.0m).

#### 9. EARNINGS PER A ORDINARY SHARE

		EPS	2016	EPS	2015
	Notes	cent	€'m	cent	€'m
Basic earnings per share					
Profit after taxation and attributable to owners of the parent		302.9	533.1	298.7	525.4
Brand related intangible asset amortisation	12	13.1	23.0	10.6	18.7
Non-trading items (net of related tax)	5	7.4	13.0	(7.4)	(13.1)
Adjusted earnings		323.4	569.1	301.9	531.0
Diluted earnings per share					
Profit after taxation and attributable to owners of the parent		302.0	533.1	298.4	525.4
Adjusted earnings		322.4	569.1	301.5	531.0

In addition to the basic and diluted earnings per share, an adjusted earnings per share is also provided as it is considered more reflective of the Group's underlying trading performance. Adjusted earnings is profit after taxation and attributable to owners of the parent before brand related intangible asset amortisation and non-trading items (net of related tax). These items are excluded in order to assist in the understanding of underlying earnings.

		2016	2015
Number of Shares	Note	m's	m's
Basic weighted average number of shares		176.0	175.9
Impact of share options outstanding		0.5	0.2
Diluted weighted average number of shares		176.5	176.1
Actual number of shares in issue as at 31 December	27	176.0	175.9

#### 10. DIVIDENDS

	2016	2015
	€'m	€'m
Group and Company:		
Amounts recognised as distributions to equity shareholders in the financial year		
Final 2015 dividend of <b>35.00 cent</b> per A ordinary share paid 13 May 2016		
(Final 2014 dividend of 31.50 cent per A ordinary share paid 15 May 2015)	61.6	55.4
Interim 2016 dividend of <b>16.80 cent</b> per A ordinary share paid 18 November 2016		
(Interim 2015 dividend of 15.00 cent per A ordinary share paid 13 November 2015)	29.6	26.4
	91.2	81.8

Since the financial year end the Board has proposed a final 2016 dividend of **39.20 cent** per A ordinary share which amounts to €69.0m. The payment date for the final dividend will be 19 May 2017 to shareholders registered on the record date as at 28 April 2017. The consolidated financial statements do not reflect this dividend.

#### 11. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and Buildings €'m	Plant, Machinery and Equipment €'m	Construction in Progress €'m	Motor Vehicles €'m	Total €'m
Group:						
Cost						
At 1 January 2015		845.3	1,591.0	180.8	18.8	2,635.9
Businesses acquired*	31	21.0	19.8	(0.7)	=	40.1
Additions		72.8	76.8	65.4	1.4	216.4
Purchase adjustments		(5.0)	(1.0)	-	-	(6.0)
Transfer from construction in progress		89.8	57.4	(147.2)	-	-
Businesses disposed		(9.9)	(21.4)	(12.5)	(0.1)	(43.9)
Disposals		(9.5)	(53.3)	(0.2)	(1.5)	(64.5)
Transfer to held for sale		(36.1)	(4.7)	=	-	(40.8)
Exchange translation adjustment	30	35.5	57.8	6.0	(0.3)	99.0
At 31 December 2015		1,003.9	1,722.4	91.6	18.3	2,836.2
Businesses acquired	31	2.0	4.6		0.3	6.9
Additions		20.0	55.7	123.0	0.9	199.6
Transfer from construction in progress		4.1	55.6	(59.7)	-	-
Businesses disposed	5	2.2	(3.3)	-	-	(1.1)
Disposals	5	(7.5)	(38.4)	-	(1.3)	(47.2)
Transfer to/from held for sale		38.7	52.4	0.3	(3.4)	88.0
Exchange translation adjustment	30	(19.5)	(37.0)	(1.6)	0.1	(58.0)
At 31 December 2016		1,043.9	1,812.0	153.6	14.9	3,024.4
Accumulated depreciation and impairment						
At 1 January 2015		315.1	1,021.1	=	16.3	1,352.5
Charge during the financial year	3	28.6	96.7	-	0.7	126.0
Impairments	3	0.9	3.2	-	=	4.1
Businesses disposed		(0.9)	(13.1)	-	=	(14.0)
Disposals		(8.7)	(41.7)	-	(1.6)	(52.0)
Transfer to held for sale		(32.1)	(4.3)	-	-	(36.4)
Exchange translation adjustment	30	11.6	34.1	-	(0.1)	45.6
At 31 December 2015		314.5	1,096.0	-	15.3	1,425.8
Charge during the financial year	3	30.8	100.4	-	1.0	132.2
Businesses acquired	31	0.5	3.2	-	0.3	4.0
Impairments	3	3.7	3.6	-	-	7.3
Businesses disposed	5	(0.3)	(2.8)	-	-	(3.1)
Disposals	5	(3.8)	(36.5)	-	(1.1)	(41.4)
Transfer to/from held for sale		42.4	48.6	-	(3.4)	87.6
Exchange translation adjustment	30	(10.0)	(29.9)	-	-	(39.9)
At 31 December 2016		377.8	1,182.6	-	12.1	1,572.5
Carrying value						
, •						
At 31 December 2015		689.4	626.4	91.6	3.0	1,410.4

<sup>\*</sup> The Group finalised the fair value exercise on the acquisitions made in 2015 in the period allowed by IFRS 3 and the measurement period adjustments have been included in the business acquired line in 2015 as required by IFRS 3. The measurement period adjustments are disclosed in note 31.

Included in the impairments above is **€6.7m** (2015: €1.7m) charged to non-trading items.

# 11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and
	Buildings
	Total €'m
Company:	
Cost	
At 1 January 2015	4.7
At 31 December 2015 and 2016	4.7
Accumulated depreciation	
At 1 January 2015	3.8
Charge during the financial year	0.1
At 31 December 2015	3.9
Charge during the financial year	0.2
At 31 December 2016	4.1
Carrying value	
At 31 December 2015	0.8
At 31 December 2016	0.6

# 12. INTANGIBLE ASSETS

			Brand Related	Computer	
		Goodwill	Intangibles	Software	Total
Group:	Notes	€'m	€'m	€'m	€'m
Cost					
At 1 January 2015		1,906.7	846.4	164.1	2.917.2
Businesses acquired*	31	315.4	504.5	104.1	819.9
Additions	31	313.4	504.5	31.6	31.6
		11.2	3.2	31.0	14.4
Purchase adjustments			3.∠	_	
Transferred to held for sale		(3.6)		_	(3.6)
Businesses disposed		(39.3)	(27.9)		(67.2)
Disposals	20	-	-	(0.5)	(0.5)
Exchange translation adjustment	30	55.5	24.0	1.3	80.8
At 31 December 2015		2,245.9	1,350.2	196.5	3,792.6
Businesses acquired	31	8.5	11.7	0.2	20.4
Additions		-	-	16.5	16.5
Transferred to/from held for sale		-	-	0.9	0.9
Businesses disposed		-	-	-	-
Disposals		-	-	(1.3)	(1.3)
Exchange translation adjustment	30	(35.1)	(4.7)	(0.4)	(40.2)
At 31 December 2016		2,219.3	1,357.2	212.4	3,788.9
Accumulated amortisation and impairment					
At 1 January 2015		36.9	169.1	82.2	288.2
Charge during the financial year	3	=	18.7	18.7	37.4
Businesses disposed		(14.5)	(15.2)	=	(29.7)
Disposals		=	=	(0.5)	(0.5)
Impairment		3.6	=	=	3.6
Transferred to held for sale		(3.6)	-	-	(3.6)
Exchange translation adjustment	30	2.1	11.4	1.1	14.6
At 31 December 2015		24.5	184.0	101.5	310.0
Charge during the financial year	3		23.0	23.4	46.4
Businesses acquired	31	_	-	0.1	0.1
Disposals		_	(0.3)	(1.1)	(1.4)
Impairment		_	-	-	-
Transferred to/from held for sale		_	_	0.8	0.8
Exchange translation adjustment	30	(1.9)	(9.0)	(0.4)	(11.3)
At 31 December 2016		22.6	197.7	124.3	344.6
Carrying value					
At 31 December 2015		2,221.4	1,166.2	95.0	3,482.6
At 31 December 2016		2,196.7	1,159.5	88.1	3,444.3

<sup>\*</sup> The Group finalised the fair value exercise on the acquisitions made in 2015 in the period allowed by IFRS 3 and the measurement period adjustments have been included in the business acquired line in 2015 as required by IFRS 3. The measurement period adjustments are disclosed in note 31.

Allocation of the purchase price in a business combination affects the results of the Group as finite life intangible assets are amortised, whereas indefinite life intangible assets, including goodwill, are not amortised. This could result in differing amortisation charges based on the allocation to finite life and indefinite life intangible assets.

Included in the cost of brand related intangibles are intangibles of &893.7m (2015: &884.1m) which have indefinite lives. There are no material internally generated brand related intangibles.

The Group has no separate individual intangible asset that is material, as all intangibles acquired are integrated and developed within the existing business.

#### 12. INTANGIBLE ASSETS (continued)

#### Impairment testing

Goodwill and indefinite life intangibles are subject to impairment testing on an annual basis, or more frequently if there are indicators of impairment. These assets are allocated to CGUs. The recoverable amount of each of the four CGUs is determined on value in use calculations. Intangible assets acquired in a business combination are allocated to CGUs that are expected to benefit from the business acquisition, rather than where the assets are owned.

Cash flow forecasts employed for the value in use calculations are for a five year period approved by management and a terminal value which is applied to the year five cash flows. The terminal value reflects the discounted value of the cash flows beyond year five which is based on the same long term growth rates applied to the cash flows.

No impairment was recognised in 2016 or 2015 as a result of the impairment testing which identified significant headroom in the recoverable amount of the related CGUs as compared to their carrying value. In 2016, there was no specific impairment charge (2015: €3.6m) in relation to goodwill recorded in non-trading items in the Consolidated Income Statement due to the classification of a business as held for sale.

A summary of the allocation of the carrying value of goodwill and indefinite life intangible assets by CGU, is as follows:

			Indefinite Life	Indefinite Life	
	Goodwill	Goodwill	Intangibles	Intangibles	
	2016	2015	2016	2015	
	€'m	€'m	€'m	€'m	
Taste & Nutrition					
EMEA	531.8	522.1	106.4	104.6	
Americas	1,156.4	1,122.8	690.2	675.6	
Asia Pacific	97.7	96.5	50.0	52.5	
Consumer Foods					
EMEA	410.8	480.0	47.1	51.4	
	2,196.7	2,221.4	893.7	884.1	

#### Key assumptions

Forecasts are generally derived from a combination of internal and external factors based on historical experience and take account of expected growth in the relevant region. The key assumptions for calculating value in use calculations are those relating to the discount rate, growth rate and cash flows. The table below outlines the weighted average discount rates and weighted average growth rates by CGU:

	Discount	Discount	Growth	Growth
	Rates	Rates	Rates	Rates
	2016	2015	2016	2015
Taste & Nutrition				
EMEA	6.7%	5.3%	1.9%	1.9%
Americas	6.7%	5.5%	2.4%	2.5%
Asia Pacific	8.3%	6.9%	4.9%	4.7%
Consumer Foods				
EMEA	6.4%	5.2%	2.0%	2.0%

Management estimate discount rates using pre-tax rates consistent with the Group's weighted average cost of capital and the risks specific to the CGUs. A higher discount rate is applied to higher risk markets, while a lower rate is applied to more stable markets.

Growth rates are based on external market data and are broadly in line with long-term industry growth rates. Generally, lower growth rates are used in mature markets while higher growth rates are used in emerging markets.

The assumptions used by management in estimating cash flows for each CGU include future profitability, capital expenditure requirements, depreciation levels and working capital investment needs using growth rates as disclosed in the table above. The cash flows included in the value in use calculations are generally determined based on historical performance, management's past experience, management's expectation of future trends affecting the industry and other developments and initiatives in the business. Capital expenditure requirements to maintain the CGUs performance and profitability are based on the Group's strategic plans and broadly assume that historic investment patterns will be maintained. Working capital requirements are forecast to move in line with activity.

#### 12. INTANGIBLE ASSETS (continued)

# Impairment testing (continued)

#### Sensitivity analysis

Sensitivity analysis has been performed across the four CGUs. If the discount rate was 1% higher than management's estimates, there would have been no requirement for the Group to recognise any impairment charge in 2016 or 2015. Further changes to the discount rate (for example, a 5% increase) would not have resulted in an impairment charge in 2016 or 2015 as there is headroom in the discounted cash flows. If the estimated growth rate was 1% lower than management's estimates, there would have been no requirement for the Group to recognise any impairment charge in 2016 or 2015. If the estimated cash flows were 5% lower than management's estimates, again there would have been no requirement for the Group to recognise any impairment charge in 2016 or 2015. Management believes that no reasonable change, in normal circumstances, in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

#### 13. FINANCIAL ASSET INVESTMENTS

		Available-for-sale Investments		Total
	Note	€'m	€'m	€'m
Group:				
At 1 January 2015		4.1	23.8	27.9
Additions		-	3.3	3.3
Exchange translation adjustment	30	-	2.8	2.8
At 31 December 2015		4.1	29.9	34.0
Additions		-	4.5	4.5
Exchange translation adjustment	30	-	0.8	8.0
At 31 December 2016		4.1	35.2	39.3

#### Available-for-sale investments

The available-for-sale investments represent investments in equity securities. These investments have no fixed maturity or coupon rate. A fair value assessment was performed in 2016 which did not result in any change to the carrying value of these assets.

A 10% decrease in the valuation of these shares in 2016 would have resulted in a loss in the Consolidated Income Statement of €0.4m (2015: €0.4m).

The Group maintains Rabbi Trusts in respect of non-qualified deferred compensation plans in the USA. The assets of the trusts primarily consist of equities, bonds and cash which are restricted for use. The equities and bonds are fair valued through profit or loss at each financial year end using quoted market prices. The corresponding liability is recognised within other non-current liabilities (note 22).

# 14. INVESTMENTS IN ASSOCIATES

At 31 December		40.7	38.9
Income received from associate		(5.0)	
Share of profit/(loss) after tax during the financial year	3	0.1	(1.3)
Acquisition		6.7	-
At 1 January		38.9	40.2
	Note	2016 €'m	2015 €'m

In 2016, the Group acquired two investments in private companies which are treated as associate undertakings and whose financial year end dates are 31 December and 26 February respectively, the dates established on their incorporation. The amounts included in these Group consolidated financial statements in respect of the post-acquisition profits or losses of these associates are taken from their latest financial statements prepared up to their financial year end, together with management accounts for the intervening periods to the Group's year end.

# 15. INVESTMENTS IN SUBSIDIARIES

Company:	01	
Company:	€'m	€'m
At beginning and end of year - at cost	637.7	637.7

# 16. INVENTORIES

	2016	2015
	€'m	€'m
Group:		
Raw materials and consumables	312.4	313.0
Finished goods and goods for resale	403.1	390.3
Expense inventories	27.5	24.2
	743.0	727.5

Write-downs of inventories recognised as an expense approximates to 1.5% (2015: 1.2%) of raw materials and consumables in the Consolidated Income Statement.

# 17. DEFERRED TAX ASSETS AND LIABILITIES

The following is an analysis of the movement in the major categories of deferred tax liabilities/(assets) recognised by the Group:

	Notes	Property, Plant and Equipment €'m	Intangible Assets €'m	Tax Credits and NOLs €'m	Retirement Benefits Obligation €'m	and Other	Total €'m
At 1 January 2015		98.7	186.5	(22.6)	(78.7)	(48.6)	135.3
Consolidated Income Statement movement	7	(1.5)	(9.7)	11.4	3.8	0.8	4.8
Recognised in other comprehensive income during the financial year		=	-	-	25.2	1.7	26.9
Related to businesses acquired/disposed		(2.3)	35.8	1.4	-	(1.6)	33.3
Exchange translation adjustment	30	7.6	2.1	(0.7)	(2.8)	(5.9)	0.3
At 31 December 2015		102.5	214.7	(10.5)	(52.5)	(53.6)	200.6
Consolidated Income Statement movement	7	(4.2)	8.4	(2.3)	16.1	(4.2)	13.8
Recognised in other comprehensive income during the financial year		-	-	-	(25.5)	(0.9)	(26.4)
Related to businesses acquired/disposed		0.8	1.9	(1.8)	-	(0.7)	0.2
Exchange translation adjustment	30	0.2	6.9	(0.4)	-	(0.4)	6.3
At 31 December 2016		99.3	231.9	(15.0)	(61.9)	(59.8)	194.5

**Short Term** 

The short term temporary differences and other temporary differences recognised in other comprehensive income comprise fair value movements on cash flow hedges of (€0.9m) (2015: €1.4m) and an exchange difference on translation of foreign operations of €nil (2015: €0.3m). In the above table, NOLs refers to Net Operating Losses.

#### 17. **DEFERRED TAX ASSETS AND LIABILITIES** (continued)

The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2016	2015
	€'m	€'m
Deferred tax assets	(52.7)	(43.2)
Deferred tax liabilities	247.2	243.8
	194.5	200.6

The total deductible temporary differences for which deferred tax assets have not been recognised is €29.7m (2015: €38.1m). The Group does not have any unrecognised losses which have an expiry date.

Deferred tax has not been recognised in respect of withholding taxes and other taxes that would be payable on the unremitted earnings of foreign subsidiaries, as the Group is in a position to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The deferred tax liabilities which have not been recognised in respect of these temporary differences are not material as the Group can rely on the availability of participation exemptions and tax credits in the context of the Group's investments in subsidiaries.

An increase of 1% in the tax rates at which deferred tax is calculated would increase the net deferred tax balance of the Group by €7.4m (2015: €6.9m).

## 18. ASSETS CLASSIFIED AS HELD FOR SALE

	2016	2015
	€'m	€'m
Group:		
Property, plant and equipment (net of grants)	4.9	12.4
Inventory	-	9.1
	4.9	21.5

In 2016, the Group held certain property, plant and equipment classified as held for sale in the Taste & Nutrition segment in Malaysia, the UK and the USA. Additionally a small Taste & Nutrition business and property, plant and equipment in the Consumer Foods segment across Ireland and the UK, which were classified as held for sale in 2015 were sold.

During 2016 it was determined that the value of the Group's remaining businesses held for sale in the Consumer Foods segment, would no longer be recovered principally through sale. As a result, assets with a carrying value of €14.7m were reclassified from 'Assets classified as held for sale' to 'Property, plant and equipment', 'Intangible assets', 'Deferred income' and 'Inventory'. A re-measurement gain of €3.6m was recorded in 'Non-trading items' (note 5) to recognise the assets at their recoverable amount. The recoverable amount was determined on value in use calculations.

# 19. TRADE AND OTHER RECEIVABLES

	Group	Group	Company	Company
	2016	2015	2016	2015
	€'m	€'m	€'m	€'m
Trade receivables	781.1	760.5	-	=
Less impairment allowance for doubtful trade receivables	(23.4)	(26.6)	-	-
Trade receivables due within 1 year	757.7	733.9	-	-
Other receivables and prepayments	41.7	37.0	-	-
Amounts due from subsidiaries	-	-	99.4	63.3
VAT receivable	45.1	57.4	-	=
Receivables due after 1 year	2.8	2.9	-	-
	847.3	831.2	99.4	63.3

All receivable balances are due within 1 year except for €2.8m (2015: €2.9m) outlined above. All receivable balances are within terms with the exception of certain trade receivables which are past due and are detailed below.

The following table shows an analysis of trade receivables split between past due and within terms accounts, where past due is deemed to be when an account exceeds the agreed terms of trade:

	2016	2015
	€'m	€'m
Within terms	627.2	605.3
Past due not more than 1 month	108.5	95.9
Past due more than 1 month but less than 2 months	15.9	25.6
Past due more than 2 months but less than 3 months	5.8	6.9
Past due more than 3 months	0.3	0.2
Trade receivables (net)	757.7	733.9

The following table summarises the movement in the allowance for doubtful trade receivables:

	2016	2015
	€'m	€'m
At beginning of financial year	26.6	25.2
Charged to the Consolidated Income Statement	8.4	10.3
Utilised or reversed during the financial year	(11.7)	(8.5)
Exchange translation adjustment	0.1	(0.4)
At end of financial year	23.4	26.6

Trade and other receivables are stated at amortised cost less allowance for impairment. The fair value of these receivables approximates their carrying value as these are short term in nature; hence, the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Credit terms and the charging of interest are determined in individual countries. The Group has provided for all receivables where there is objective evidence, including historical loss experience, that amounts are irrecoverable. The Group does not typically require collateral in respect of trade receivables.

The quality of past due not impaired trade and other receivables is considered good, therefore no significant impairment charge has been recorded in the Consolidated Income Statement in 2016 or 2015.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. These credit limits are reviewed regularly throughout the financial year.

There is no significant concentration of credit risk or transaction currency risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers. Further disclosures on currency risk are provided in note 24 to the financial statements.

# 20. TRADE AND OTHER PAYABLES

	Group 2016 €'m	Group 2015 €'m	Company 2016 €'m	Company 2015 €'m
Trade payables	1,159.0	1,090.6	-	-
Other payables and accruals	175.1	182.1	4.5	3.4
Deferred payments on acquisition of businesses	8.7	6.8	5.9	5.9
PAYE	2.9	2.9	-	-
Social security costs	5.9	6.2	-	=
	1,351.6	1,288.6	10.4	9.3

Trade and other payables are stated at amortised cost, which approximates to fair value given the short term nature of these liabilities. The above balances are all due within 1 year.

# 21. DEFERRED INCOME

		Group	Group	Company	Company
		2016	2015	2016	2015
	Notes	€'m	€'m	€'m	€'m
Capital grants					
At beginning of the financial year		27.3	25.6	0.1	0.1
Transfer from held for sale		1.0	=	-	=
Grants received during the financial year		2.3	3.7	-	=
Amortised during the financial year	3	(3.0)	(2.5)	-	-
Disposal		(0.5)	=	-	=
Exchange translation adjustment	30	-	0.5	-	=
At end of the financial year		27.1	27.3	0.1	0.1
Analysed as:					
Current liabilities		2.8	2.7	-	-
Non-current liabilities		24.3	24.6	0.1	0.1
		27.1	27.3	0.1	0.1

There are no material unfulfilled conditions or other contingencies attaching to any government grants received.

# 22. OTHER NON-CURRENT LIABILITIES

	Group	Group	Company	Company
	2016	2015	2016	2015
	€'m	€'m	€'m	€'m
Other payables and accruals	94.0	90.7	-	=
Deferred payments on acquisition of businesses	1.1	3.2	-	-
	95.1	93.9	-	-

All of the above balances are due within 2 to 5 years except for €0.5m (2015: €0.7m) which is not due until after 5 years.

# 23. ANALYSIS OF FINANCIAL INSTRUMENTS BY CATEGORY

The following table outlines the financial assets and liabilities held by the Group at the balance sheet date:

	Notes	Loans & Receivables & Other Financial Assets/(Liabilities) at Amortised Cost 2016 €'m	Assets/ (Liabilities) at Fair Value through Profit or Loss 2016 €'m	Derivatives Designated as Hedging Instruments 2016 €'m	Available- for-sale Investments 2016 €'m	Total 2016 €'m
Group:		<u> </u>				
Financial asset investments	13	-	35.2	-	4.1	39.3
Forward foreign exchange contracts	24 (i.i)	-	8.3	46.5	-	54.8
Interest rate swaps	24 (ii.ii)	-	-	178.3	-	178.3
Trade and other receivables	19	847.3	-	-	-	847.3
Cash at bank and in hand	24 (iii.i)	564.7	-	-	-	564.7
Total financial assets		1,412.0	43.5	224.8	4.1	1,684.4
Current assets		1.412.0	8.3	71.8	_	1,492.1
Non-current assets		-,	35.2	153.0	4.1	192.3
		1,412.0	43.5	224.8	4.1	1,684.4
Developing and available	0/ (;;;;)	(2.0211)	(20.7)			(2.0E0.E)
Borrowings and overdrafts	24 (iii.i)	(2,031.1)	(28.4)	(18.3)	-	(2,059.5)
Forward foreign exchange contracts	24 (i.i) 24 (ii.ii)	-	(2.7)	(18.3)	-	(21.0) (7.2)
Interest rate swaps Trade and other payables	20/22	(1,446.7)	-	(7.2)	-	(1,446.7)
Total financial liabilities	20/22	(3,477.8)	(31.1)	(25.5)	<u> </u>	(3,534.4)
Total Illiancial liabilities		(3,477.0)	(31.1)	(23.3)	<del>-</del>	(3,334.4)
Current liabilities		(1,544.1)	(2.7)	(18.2)	-	(1,565.0)
Non-current liabilities		(1,933.7)	(28.4)	(7.3)	-	(1,969.4)
		(3,477.8)	(31.1)	(25.5)	-	(3,534.4)
Total net financial (liabilities)/assets		(2,065.8)	12.4	199.3	4.1	(1,850.0)
Included in the above table are the following	ing compone	ents of net debt:				
Analysis of total net debt by category Bank overdrafts		(3.6)	_	_	_	(3.6)
Bank loans		(6.9)	-	-	-	(6.9)
Senior notes		(2,020.6)	(28.4)	_	_	(2,049.0)
Borrowings and overdrafts		(2,031.1)	(28.4)	-	-	(2,059.5)
Interest rate swaps		-	-	171.1	-	171.1
Cash at bank and in hand		564.7	-	-	-	564.7
Total net debt		(1,466.4)	(28.4)	171.1	-	(1,323.7)

# 23. ANALYSIS OF FINANCIAL INSTRUMENTS BY CATEGORY (continued)

All Group borrowings are guaranteed by Kerry Group plc. No assets of the Group have been pledged to secure the borrowings.

As part of the Group's debt portfolio it holds U\$\$750m of senior notes issued in 2013 and U\$\$600m of senior notes issued in 2010. At the time of issuance, U\$\$250m of the 2013 senior notes and U\$\$500m of the 2010 senior notes were swapped, using cross currency swaps, to euro. In addition the Group holds €750m of senior notes issued in 2015, of which €175m were swapped, using cross currency swaps, to US dollar.

The adjustment to senior notes classified under liabilities at fair value through profit or loss of €28.4m (2015: €31.7m) represents the part adjustment to the carrying value of debt from applying fair value hedge accounting for interest rate risk. This amount is primarily offset by the fair value adjustment on the corresponding hedge item being the underlying cross currency interest rate swap.

	Notes	Loans & Receivables & Other Financial Assets/(Liabilities) at Amortised Cost 2015 €'m	Assets/ (Liabilities) at Fair Value through Profit or Loss 2015 €'m	Derivatives Designated as Hedging Instruments 2015 €'m	Available- for-sale Investments 2015 €'m	Total 2015 €'m
Group:						
Financial asset investments	13	-	29.9	-	4.1	34.0
Forward foreign exchange contracts	24 (i.i)	=	6.7	13.5	-	20.2
Interest rate swaps	24 (ii.ii)	-	-	169.9	-	169.9
Trade and other receivables	19	831.2	-	-	-	831.2
Cash at bank and in hand	24 (iii.i)	236.4	-	-	-	236.4
Total financial assets		1,067.6	36.6	183.4	4.1	1,291.7
Current assets		1,067.6	6.7	9.0	=	1,083.3
Non-current assets		-	29.9	174.4	4.1	208.4
		1,067.6	36.6	183.4	4.1	1,291.7
Borrowings and overdrafts	24 (iii.i)	(2,018.2)	(31.7)	-	-	(2,049.9)
Forward foreign exchange contracts	24 (i.i)	=	(19.5)	(5.6)	-	(25.1)
Interest rate swaps	24 (ii.ii)	=	=	(6.5)	=	(6.5)
Trade and other payables	20/22	(1,382.5)	-	-		(1,382.5)
Total financial liabilities		(3,400.7)	(51.2)	(12.1)	=	(3,464.0)
Current liabilities		(1,327.0)	(19.5)	(5.6)	=	(1,352.1)
Non-current liabilities		(2,073.7)	(31.7)	(6.5)	=	(2,111.9)
		(3,400.7)	(51.2)	(12.1)	-	(3,464.0)
Total net financial (liabilities)/assets		(2,333.1)	(14.6)	171.3	4.1	(2,172.3)
Included in the above table are the follow	ing compone	nts of net debt:				
Analysis of total net debt by category						
Bank overdrafts		(5.2)	-	-	-	(5.2)
Bank loans		(33.2)	=	-	-	(33.2)
Senior notes		(1,979.8)	(31.7)	<del>-</del>	-	(2,011.5)
Borrowings and overdrafts		(2,018.2)	(31.7)	-	-	(2,049.9)
Interest rate swaps		=	-	163.4	-	163.4
Cash at bank and in hand		236.4	_	-	=	236.4
Total net debt		(1,781.8)	(31.7)	163.4	-	(1,650.1)

#### 23. ANALYSIS OF FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The following table outlines the financial assets and liabilities held by the Company at the balance sheet date:

		2016	2015
	Notes	€'m	€'m
Company:		'	
Loans & receivables & other financial assets at amortised cost			
Cash at bank and in hand		0.1	0.1
Trade and other receivables	19	99.4	63.3
Total financial assets		99.5	63.4
Current assets		99.5	63.4
Financial liabilities at amortised cost			
Borrowings and overdrafts		(0.1)	(0.7)
Trade and other payables	20	(10.4)	(9.3)
Total financial liabilities		(10.5)	(10.0)
Current liabilities		(10.5)	(10.0)
Total net financial assets		89.0	53.4

# 24. FINANCIAL INSTRUMENTS

#### Capital management

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.

The capital structure of the Group consists of debt related financial liabilities, cash and cash equivalents, deferred payments on acquisitions of businesses and equity attributable to owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity, as represented in the table below:

		4,427.5	4,450.2
Deferred payments on acquisition of businesses	20/22	9.8	10.0
Total net debt	23	1,323.7	1,650.1
Issued capital and reserves attributable to owners of the parent		3,094.0	2,790.1
	Notes	€'m	€'m
		2016	2015

In 2015, the Group agreed a new 5 year €1.1bn revolving credit facility replacing the existing facility which was due to mature in April 2016. The facility was part used to repay the US\$306m Tranche C 2003 Senior Notes that matured on 30 April 2015. The facility provides a line of committed debt, thereby significantly extending the maturity profile of Group debt. During 2016 the Group exercised the first extension option to extend maturity to April 2021.

In September 2015, the Group issued its debut euro bond, issuing €750m 10 year notes at an annual coupon of 2.375%. The bonds which are listed on the Irish Stock Exchange provide Kerry with an additional source of debt finance and significantly extend the maturity profile of Group debt. Proceeds from the issue were used to repay existing debt on the 5 year €1.1bn revolving credit facility and to fund acquisitions. The senior notes are rated by Standard & Poor's and Moody's.

Capital is managed by setting net debt to earnings before finance income and costs, income taxes, depreciation (net), intangible asset amortisation and non-trading items (EBITDA) targets while allowing flexibility to accommodate significant acquisition opportunities. Any expected variation from these targets should be reversible within 12 to 18 months; otherwise consideration would be given to issuing additional equity in the Group.

Net debt is subject to seasonal fluctuations that can be up to 25% above year end debt levels.

#### Capital management (continued)

Except for public bonds, the majority of Group borrowings are subject to financial covenants calculated in accordance with lenders' facility agreements. Principal among these are:

- the ratio of net debt to EBITDA of a maximum of 3.5 times; and
- EBITDA to net interest charge of a minimum of 4.75 times.

At 31 December these ratios were as follows:

	2016	2015
	Times	Times
Net debt: EBITDA*	1.5	1.9
EBITDA: Net interest*	14.0	17.3

<sup>\*</sup> Calculated in accordance with lenders' facility agreements.

#### Financial risk management objectives

The Group has a clearly defined 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 operates a centralised treasury function, which manages the principal financial risks of the Group and Company.

The principal objectives of the Group's Financial Risk Management Programme are:

- to manage the Group's exposure to foreign exchange rate risk;
- to manage the Group's exposure to interest rate risk;
- to ensure that the Group has sufficient credit facilities available; and
- to ensure that counterparty credit risk is monitored and managed.

Residual exposures not managed commercially are hedged using approved financial instruments. The use of financial derivatives is governed by the Group's policies and procedures. The Group does not engage in speculative trading.

The principal objectives of the Group's Financial Risk Management Programme are further discussed across the following categories:

- Foreign exchange rate risk management key foreign exchange exposure of the Group and the disclosures on forward foreign exchange contracts.
- Interest rate risk management key interest rate exposures of the Group and the disclosures on interest rate derivatives.
- (iii) Liquidity risk management key banking facilities available to the Group and the maturity profile of the Group's debt.
- (iv) Credit risk management details in relation to the management of credit risk within the Group.
- (v) Price risk management details in relation to the management of price risk within the Group.
- (vi) Fair value of financial instruments disclosures in relation to the fair value of financial instruments.
- (vii) Offsetting financial instruments disclosures in relation to the potential offsetting values in financial instruments.

# (i) Foreign exchange rate risk management

The Group is exposed to transactional foreign currency risk on trading activities conducted by subsidiaries in currencies other than their functional currency. Group policy is to manage foreign currency exposures commercially and through netting of exposures wherever possible. Any residual exposures arising on foreign exchange transactions are hedged in accordance with Group policy using approved financial instruments, which consist primarily of spot and forward exchange contracts and currency swaps.

As at 31 December, the Group had an exposure to US dollar assets of €0.3m (2015: €48.5m) and a sterling liability of €2.8m (2015: €18.7m). Based on these net positions, as at 31 December 2016, a weakening of 5% of the US dollar and sterling against all other key operational currencies, and holding all other items constant, would have increased/(decreased) the profit after tax of the Group for the financial year by €0.1m (2015: (€1.4m)).

The Group's gain or loss on the retranslation of the net assets of foreign currency subsidiaries is taken directly to the translation reserve. As at 31 December 2016 a 5% strengthening of the euro against the US dollar and sterling, holding all other items constant, would have resulted in an additional translation reserve loss of €12.2m (2015: €9.2m) and €20.4m (2015: €18.9m) respectively.

# (i) Foreign exchange rate risk management (continued)

#### (i.i) Forward foreign exchange contracts

The Group's activities expose it to risks of changes in foreign currency exchange rates in relation to international trading, primarily sales in US dollar and sterling out of the Eurozone. The Group uses forward foreign exchange contracts to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair value.

The following table details the portfolio of forward foreign exchange contracts at the balance sheet date:

	Notes	2016 €'m Asset	2016 €'m Liability	2016 €'m Total	2015 €'m Asset	2015 €'m Liability	2015 €'m Total
Designated in a hedging relationship:							
Forward foreign exchange contracts - cash flow hedges	(a)	46.5	(18.3)	28.2	13.5	(5.6)	7.9
- current		46.3	(18.2)	28.1	9.0	(5.6)	3.4
- non-current		0.2	(0.1)	0.1	4.5	=	4.5
At Fair Value through Profit or Loss:							
Forward foreign exchange contracts - trading derivatives	(b)	8.3	(2.7)	5.6	6.7	(19.5)	(12.8)
- current		8.3	(2.7)	5.6	6.7	(19.5)	(12.8)
Forward foreign exchange contracts		54.8	(21.0)	33.8	20.2	(25.1)	(4.9)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if the maturity of the hedged item is less than twelve months.

The Group does not hold any forward foreign exchange contracts classified as fair value hedges.

#### (a) Forward foreign exchange contracts - cash flow hedges

The following table details the foreign exchange contracts classified as cash flow hedges at 31 December:

	Fair Value Asset		Notional Principal	
	2016 €'m	2015 €'m	2016 €'m	2015 €'m
Forward foreign exchange contracts				
less than 1 year	28.1	3.4	1,044.5	711.4
1 - 2 years	0.1	4.5	10.5	135.6
Forward foreign exchange contracts - cash flow hedges	28.2	7.9	1,055.0	847.0

At 31 December 2016, an asset of €28.9m (2015: €7.1m) of the fair value is included in the hedging reserve, which will primarily be released to the Consolidated Income Statement within 14 months (2015: 18 months) of the balance sheet date. All forward contracts relate to sales revenue and purchases made in their respective currencies.

During 2016, a gain of €14.1m (2015: a loss of €1.8m) has been taken to foreign exchange gains/(losses) in the Consolidated Income Statement in respect of forward foreign exchange contracts that matured during the year. There were no transactions during 2016 or 2015 which were designated as hedges that did not occur, nor are there hedges on forecast transactions that are no longer expected to occur.

During 2016 **€2.6m** (2015: €0.8m) of the gains and losses in other comprehensive income on forward foreign exchange contracts as at 31 December 2015 were released to the Consolidated Income Statement as follows:

- within 3 months: **€0.3m** (2015: **€**0.3m);
- within 3 to 6 months: **€nil** (2015: €0.1m);
- within 6 to 9 months: **€0.4m** (2015: €0.2m); and
- within 9 to 12 months: **€1.9m** (2015: €0.2m)

The remaining balance of €4.5m in 2015 has a mark to market of €17.3m at the end of 2016.

At 31 December 2016 and 2015 no ineffectiveness was recognised in the Consolidated Income Statement from foreign currency cash flow hedges.

(i) Foreign exchange rate risk management (continued)

(i.i) Forward foreign exchange contracts (continued)

#### (b) Forward foreign exchange contracts - trading

The Group holds forward foreign exchange contracts that provide a hedge against foreign currency receivables from 'within Group' lending. These derivatives are classified as trading derivatives and held at fair value through profit or loss. In addition in 2015, the Group held a portfolio of forward foreign currency contracts that provide an economic hedge against expected future sales revenue in the respective currencies of the underlying contracts which were not classified for hedge accounting.

The following table details the forward foreign exchange contracts classified as trading derivatives at 31 December:

	Fair Value	N	otional Principal	
	2016	2015	2016	2015
	€'m	€'m	€'m	€'m
Forward foreign exchange contracts - trading	5.6	(12.8)	795.8	1,241.2

The fair value gain of €5.6m (2015: a loss of €12.8m) is directly offset by a loss of €5.6m (2015: a loss of €5.5m) on the retranslation to balance sheet rates on foreign currency receivables from 'within Group' lending and cash pooling. The balance of €nil (2015: a loss of €7.3m) relates to other economic hedges as outlined above.

#### (ii) Interest rate risk management

The Group is exposed to interest rate risk as the Group holds borrowings on both a fixed and floating basis. This exposure to interest rate risk is managed by optimising the mix of fixed and floating rate borrowings and by using interest rate swaps, cross currency swaps and forward rate agreements to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair value.

# (ii.i) Interest rate profile of financial liabilities excluding related derivatives fair value

The Group's exposure to interest rates on financial assets and liabilities are detailed in the table below including the impact of cross currency swaps (CCS) on the currency profile of net debt:

	Total Pre CCS €'m	Impact of CCS €'m	Total after CCS €'m	Floating Rate Debt €'m	Fixed Rate Debt €'m
Euro	404.6	536.0	940.6	41.4	899.2
Sterling	(116.8)	-	(116.8)	(116.8)	-
US Dollar	1,225.8	(536.0)	689.8	358.0	331.8
Others	(47.2)	-	(47.2)	(47.2)	-
At 31 December 2016	1,466.4	-	1,466.4	235.4	1,231.0
					_
Euro	675.0	513.9	1,188.9	299.8	889.1
Sterling	(19.4)	=	(19.4)	(19.4)	=
US Dollar	1,205.0	(513.9)	691.1	369.6	321.5
Others	(78.8)	-	(78.8)	(78.8)	=
At 31 December 2015	1,781.8	-	1,781.8	571.2	1,210.6

The currency profile of debt highlights the impact of the US\$750m of cross currency swaps entered into at the time of issuance of senior notes. For the 2013 senior notes, US\$250m were swapped from US dollar fixed to euro fixed and are accounted for as cash flow hedges. For the 2010 senior notes, US\$408m were swapped from US dollar fixed to euro floating and are accounted for as fair value hedges. In addition US\$92m were swapped from US dollar fixed to euro fixed and are accounted for as cash flow hedges. The retranslation of the foreign currency debt of US\$750m to the balance sheet rate resulted in a foreign currency loss of €179.4m (2015: €157.4m) which is directly offset by a gain of €179.4m (2015: €157.4m) on the application of hedge accounting on the cross currency swaps.

In addition, the Group holds €750m of senior notes issued in 2015, of which €175m were swapped, using cross currency swaps, from euro fixed to US dollar floating and are accounted for as fair value hedges of the related debt. The fair value of the related derivative includes a liability of €9.7m (2015: €4.0m) for movement in exchange rates since the date of execution which is directly offset by a loss of €9.7m (2015: €4.0m) on the application of hedge accounting on the cross currency swaps.

The weighted average interest rate for fixed borrowings as at 31 December 2016 is 2.57% (2015: 2.61%) and the weighted average period for which the rate is fixed is 6.6 years (2015: 7.6 years).

(ii) Interest rate risk management (continued)

# (ii.i) Interest rate profile of financial liabilities excluding related derivatives fair value (continued)

The floating rate financial liabilities are at rates which fluctuate mainly based upon LIBOR or EURIBOR and comprise of bank borrowings and other financial liabilities bearing interest rates fixed in advance for periods ranging from 1 to 6 months. At the year end **16%** (2015: 32%) of net debt and **39%** (2015: 40%) of gross debt was held at floating rates. If the interest rates applicable to floating rate net debt were to rise by 1% holding all other items constant, the profit of the Group before taxation and non-trading items in the Consolidated Income Statement could decrease by 0.4% (2015: 0.7%).

#### (ii.ii) Interest rate swap contracts

The Group's activities expose it to risks of changes in interest rates in relation to long-term debt. The Group uses interest rate swaps, cross currency swaps and forward rate agreements to hedge these exposures. Derivative financial instruments are held in the Consolidated Balance Sheet at their fair values.

The Group adopts an "exit price" approach to valuing interest rate derivatives to allow for credit risk. All hedges are highly effective on a prospective and retrospective basis.

The following table details the portfolio of interest rate derivative contracts at the balance sheet date:

		2016	2016	2016	2015	2015	2015
		€'m	€'m	€'m	€'m	€'m	€'m
	Notes	Asset	Liability	Total	Asset	Liability	Total
Designated in a hedging relationship:							
Interest rate swap contracts - cash flow hedges	(a)	45.2	-	45.2	40.7	=	40.7
- current		25.5	-	25.5	-	-	-
- non-current		19.7	-	19.7	40.7	=	40.7
Interest rate swap contracts - fair value hedges	(b)	133.1	(7.2)	125.9	129.2	(6.5)	122.7
- current		-	-	-	=	=	-
- non-current		133.1	(7.2)	125.9	129.2	(6.5)	122.7
Interest rate swap contracts		178.3	(7.2)	171.1	169.9	(6.5)	163.4

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if the maturity of the hedged item is less than twelve months. The classification of the maturity profile of the interest rate derivative contracts are set out in the tables (a) - (b) below.

# (a) Interest rate swap contracts - cash flow hedges

Under interest rate swap contracts, including cross currency interest rate swaps, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on the agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of the cash flow hedges, where the Group receives floating or fixed interest rate and pays fixed interest rate on swaps as at 31 December:

	Average Contracted Fixed Interest Rate		Fair Value Asset		Notional Principal	
	2016	2015	2016	2015	2016	2015
	%	%	€'m	€'m	€'m	€'m
Interest rate swap contracts						
less than 1 year	4.38	-	25.5	-	87.2	-
1 - 2 years	-	4.38	-	22.7	-	84.5
2 - 5 years	-	-	-	-	-	-
> 5 years	2.58	2.58	19.7	18.0	237.0	229.6
Interest rate swap contracts - cash flow hedges			45.2	40.7	324.2	314.1

(ii) Interest rate risk management (continued)

(ii.ii) Interest rate swap contracts (continued)

(a) Interest rate swap contracts - cash flow hedges (continued)

Of the fair value asset of €45.2m at 31 December 2016 (2015: €40.7m), a gain of €66.9m (2015: €56.9m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange gain of €10.0m (2015: €32.4m) has been recognised in the Consolidated Income Statement and directly offsets the impact incurred on the retranslation of the underlying hedged foreign currency borrowings.

At 31 December 2016 a liability of €20.2m (2015: €14.4m liability) has been recognised in the hedging reserve and will be released to the Consolidated Income Statement over the life of the interest rate swaps of this debt. During 2016, a charge of €0.8m (2015: €1.1m) has been taken to finance costs in the Consolidated Income Statement in respect of amounts held in the hedging reserve at 31 December 2015. The balance of €1.5m (2015: €1.8m) relates to the recognition of credit value adjustments. The current year movement of €0.3m (2015: (€3.6m)) is recognised in the Consolidated Income Statement.

The interest rate swaps settle on a 6 monthly basis, the difference between the floating rate or fixed rate due to be received and the fixed rate to be paid are settled on a net basis.

#### (b) Interest rate swap contracts - fair value hedges

Under interest rate swap contracts including cross currency interest rate swaps, the Group agrees to exchange the difference between the floating and fixed interest amounts calculated on the agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of the fair value hedges, where the Group receives fixed interest rate and pays floating interest rate on swaps as at 31 December:

	Average Contracted Fixed Interest Rate		Fair Value Asset		Notional Principal	
	<b>2016</b> %	2015 %	2016 €'m	2015 €'m	2016 €'m	2015 €'m
Interest rate swap contracts						
2 - 5 years	4.83	4.83	64.1	61.8	197.2	191.1
> 5 years	3.52	3.51	61.8	60.9	601.6	588.3
Interest rate swap contracts - fair value hedges			125.9	122.7	798.8	779.4

The interest rate swaps settle on a 6 monthly or annual basis. The floating interest rate paid by the Group is based on 6 month EURIBOR or LIBOR. All hedges are highly effective on a prospective and retrospective basis.

Of the fair value asset of €125.9m (2015: €122.7m) at 31 December 2016, a gain of €102.8m (2015: €96.5m) is attributed to foreign exchange rate fluctuations. The current year foreign exchange gain of €6.3m (2015: €34.7m) has been recognised in the Consolidated Income Statement to directly offset the impact incurred on the retranslation of the underlying hedged foreign currency borrowings. In addition, an amount of €28.4m (2015: €31.7m) relates to interest rate risk and the current year movement has been recognised in the Consolidated Income Statement. This is directly offset against the fair value adjustment to the underlying hedged foreign currency borrowings for interest rate risk. The balance of €5.3m (2015: €5.5m) relates to the recognition of credit value adjustments. The current year movement of €0.2m (2015: (€1.4m)) is recognised in the Consolidated Income Statement.

#### (iii) Liquidity risk management

Liquidity risk considers the risk that the Group could encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. There is no significant concentration of liquidity risk.

Group funding and liquidity is managed by ensuring that sufficient facilities are available from diverse funding sources with an appropriate spread of debt maturities to match the underlying assets. The Group uses cash flow forecasts to constantly monitor the funding requirements of the Group.

Group businesses are funded from cash generated from operations, borrowings from banks and senior notes from capital markets. It is Group policy to ensure that:

- sufficient facilities are available to cover its gross forecast debt by at least 1.25 times; and
- 75% of total facilities available are committed.

Both targets were met at 31 December 2016 and 2015.

Funding is sourced from banks via syndicated and bilateral arrangements and from institutional investors.

All Group credit facilities are arranged and managed by Group Treasury and approved by the Board of Directors. Where possible, facilities have common security, financial covenants and terms and conditions.

#### (iii) Liquidity risk management (continued)

At 31 December 2016, the Group had undrawn committed bank facilities of €1,100m (2015: €1,100m), and a portfolio of undrawn standby facilities amounting to €360.0m (2015: €340.3m). In April 2016 the Group exercised a 1 year extension option on the revolving credit facility. The undrawn committed facilities comprise primarily of a revolving credit facility maturing between 4 - 5 years (2015: between 4 - 5 years).

# (iii.i) Contractual maturity profile of non-derivative financial instruments

The following table details the Group's remaining contractual maturity of its non-derivative financial instruments excluding trade and other payables (note 20) and other non-current liabilities (note 22), of which €1,351.6m (2015: €1,288.6m) is payable within 1 year, €94.6m (2015: €93.2m) between 2 and 5 years and €0.5m (2015: €0.7m) is payable after 5 years. This information has been drawn up based on the undiscounted cash flows of financial liabilities to the earliest date on which the Group can be required to repay. The analysis includes both interest commitments and principal cash flows. To the extent that interest rates are floating, the rate used is derived from interest rate yield curves at the end of the reporting date and as such, are subject to change based on market movements.

	On demand & up to 1 year €'m	Up to 2 years €'m	2 - 5 years €'m	> 5 years €'m	Total €'m
Bank overdrafts	3.6	-	-	-	3.6
Bank loans	6.9	-	-	-	6.9
Senior notes	182.0	-	197.2	1,641.4	2,020.6
Borrowings and overdrafts	192.5	-	197.2	1,641.4	2,031.1
Deferred payments on acquisition of businesses	8.7	0.3	0.8	-	9.8
	201.2	0.3	198.0	1,641.4	2,040.9
Interest commitments	60.0	59.5	160.1	106.1	385.7
At 31 December 2016	261.2	59.8	358.1	1,747.5	2,426.6
Reconciliation to net debt position:					
Borrowings and overdrafts	192.5	-	197.2	1,641.4	2,031.1
Senior notes - fair value adjustment	-	-	10.7	17.7	28.4
Borrowings - reported	192.5	-	207.9	1,659.1	2,059.5
Interest rate swaps	(25.6)	-	(64.1)	(81.4)	(171.1)
Cash at bank and in hand	(564.7)	-	-	-	(564.7)
Total net debt as at 31 December 2016	(397.8)	-	143.8	1,577.7	1,323.7

(iii) Liquidity risk management (continued)

(iii.i) Contractual maturity profile of non-derivative financial instruments (continued)

	On demand & up to 1 year €'m	Up to 2 years €'m	2 - 5 years €'m	> 5 years €'m	Total €'m
Bank overdrafts	5.2	-	-	-	5.2
Bank loans	33.2	-	-	-	33.2
Senior notes	-	176.4	191.1	1,612.3	1,979.8
Borrowings and overdrafts	38.4	176.4	191.1	1,612.3	2,018.2
Deferred payments on acquisition of businesses	6.8	2.3	0.9	-	10.0
	45.2	178.7	192.0	1,612.3	2,028.2
Interest commitments	66.0	58.6	166.0	153.8	444.4
At 31 December 2015	111.2	237.3	358.0	1,766.1	2,472.6
Reconciliation to net debt position:					
Borrowings and overdrafts	38.4	176.4	191.1	1,612.3	2,018.2
Senior notes - fair value adjustment	-	-	14.6	17.1	31.7
Borrowings - reported	38.4	176.4	205.7	1,629.4	2,049.9
Interest rate swaps	=	(22.7)	(61.8)	(78.9)	(163.4)
Cash at bank and in hand	(236.4)	-	-	-	(236.4)
Total net debt as at 31 December 2015	(198.0)	153.7	143.9	1,550.5	1,650.1

# (iii.ii) Contractual maturity profile of derivative financial instruments

The following table details the Group's remaining contractual maturity of its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis. To the extent that the amounts payable or receivable are not fixed, the rate used is derived from interest rate yield curves at the end of the reporting date and as such are subject to change based on market movements.

	On demand & up to 1 year €'m	Up to 2 years €'m	2 - 5 years €'m	> 5 years €'m	Total €'m
Interest rate swaps inflow	63.9	38.4	153.9	143.0	399.2
Interest rate swaps outflow	(20.2)	(20.7)	(64.7)	(57.0)	(162.6)
Net interest rate swaps inflow	43.7	17.7	89.2	86.0	236.6
Forward foreign exchange contracts inflow	33.7	0.1	-	-	33.8
At 31 December 2016	77.4	17.8	89.2	86.0	270.4
	On demand &	Up to			
	up to 1 year	2 years	2 - 5 years	> 5 years	Total
	€'m	€'m	€'m	€'m	€'m
Interest rate swaps inflow	41.0	60.2	154.4	156.9	412.5
Interest rate swaps outflow	(20.9)	(19.7)	(63.5)	(70.9)	(175.0)
Net interest rate swaps inflow	20.1	40.5	90.9	86.0	237.5
Forward foreign exchange contracts (outflow)/inflow	(9.4)	4.5	-	-	(4.9)
At 31 December 2015	10.7	45.0	90.9	86.0	232.6

Included in the interest rate swaps inflows and outflows is the foreign currency differential on final maturity of the cross currency interest rate swaps as follows:

# Swap inflows

- Up to 1 year swap inflow of **€25.4m** (2015: €nil)
- 1 2 years swap inflow of **€nil** (2015: €22.7m)
- 2 5 years swap inflows of **€57.3m** (2015: €51.2m)
- Greater than 5 years swap inflows of **€96.7m** (2015: €83.5m)

# Swap outflows

- Greater than 5 years - swap outflows of €9.7m (2015: €4.0m)

(iii) Liquidity risk management (continued)

## (iii.iii) Summary of borrowing arrangements

#### (a) Bank loans

Bank loans comprise committed term loan facilities, committed revolving credit facilities, bilateral term loans and other uncommitted facilities:

- Demand facilities:
- Syndicate revolving credit facilities of €1.1bn maturing April 2021, with 1 year extension option on the second anniversary; and
- Bilateral term loans with maturities ranging up to 1 year.

#### (b) 2015 Euro senior notes

The Group issued a debut 10 year euro bond of €750m with a maturity date on 10 September 2025.

#### (c) 2013 US dollar senior notes

The Group issued a 10 year USA debut public bond of US\$750m with a maturity date on 9 April 2023.

## (d) 2010 Senior notes

The Group placed US\$600m of senior notes with USA institutional investors in four tranches with maturity as follows:

- Tranche A of US\$192m maturing on 20 January 2017
- Tranche B of US\$208m maturing on 20 January 2020
- Tranche C of US\$125m maturing on 20 January 2022
- Tranche D of US\$75m maturing on 20 January 2025

#### (e) 2003 Senior notes

The Group placed US\$650m senior notes with USA institutional investors in 2003, Tranche A of US\$114m matured on 30 April 2010 and Tranche B of US\$230m matured on 30 April 2013 and Tranche C of US\$306m matured on 30 April 2015.

Both the committed syndicate facilities and the 2010 senior notes have financial covenants attached to them. The Group was in full compliance with these covenants for the financial years 2016 and 2015.

#### (iv) Credit risk management

Cash deposits and other financial assets give rise to credit risk on the amounts due from counterparties.

The Group controls and monitors the distribution of this exposure by ensuring that all financial instruments are held with reputable and financially secure institutions and that exposure to credit risk is distributed across a number of institutions. At 31 December 2016 and 2015 all cash, short-term deposits and other liquid investments had a maturity of less than 3 months.

Credit risk exposure to financial institutions is actively managed across the portfolio of institutions by setting appropriate credit exposure limits based on a value at risk calculation that takes EBITDA of the Group and calculates approved tolerance levels based on credit default swap rates for the financial institutions. These levels are applied in controlling the level of material surplus funds that are placed with counterparties and for controlling the institutions with which the Group enters into derivative contracts. Credit default swaps for those financial institutions are as published by independent credit rating agencies and are updated and reviewed on an ongoing basis.

The Group's exposure to its counterparties is continuously monitored and the aggregate value of transactions entered into is spread amongst approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable at operating unit level at least on a monthly basis.

#### (iv) Credit risk management (continued)

The Group's maximum exposure to credit risk consists of gross trade receivables (note 19), cash deposits (note 23) and other financial assets (note 23), which are primarily interest rate swaps and foreign exchange contracts.

In relation to credit risk on derivative financial instruments, where appropriate, the Group credit risk is actively managed across the portfolio of institutions through monitoring the credit default swaps (CDS) and setting appropriate credit exposure limits based on CDS levels. These levels are applied in controlling the level of material surplus funds that are placed with counterparties and for controlling institutions with which the Group enters into derivative contracts.

#### (v) Price risk management

The Group's exposure to equity securities price risk due to financial asset investments held is considered to be low as the level of securities held versus the Group's net assets is not material.

The Group purchases a variety of commodities which can experience price volatility. It is Group policy to manage commodity price risk commercially via back to back arrangements with customers, through forward purchasing and limited use of derivatives.

#### (vi) Fair value of financial instruments

#### (a) Fair value of financial instruments carried at fair value

Financial instruments recognised at fair value are analysed between those based on:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- those involving inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level 3).

		Fair Value	2016	2015
		Hierarchy	€'m	€'m
Financial assets				
Interest rate swaps		Level 2	178.3	169.9
Forward foreign exchange contrac	ts	Level 2	54.8	20.2
Financial asset investments:	Fair value through profit or loss	Level 1	35.2	29.9
	Available-for-sale	Level 3	4.1	4.1
Financial liabilities				
Interest rate swaps		Level 2	(7.2)	(6.5)
Forward foreign exchange contrac	ts	Level 2	(21.0)	(25.1)

The reconciliation of Level 3 assets is provided in note 13. There have been no transfers between levels during the current or prior financial year.

#### (b) Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, it is considered that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	Fair Value	Carrying Amount 2016	Fair Value 2016	Carrying Amount 2015	Fair Value 2015
	Hierarchy	€'m	€'m	€'m	€'m
Financial liabilities					
Senior notes - Public	Level 2	(1,451.8)	(1,471.0)	(1,428.7)	(1,398.6)
Senior notes - Private	Level 2	(568.8)	(585.4)	(551.1)	(566.7)
		(2,020.6)	(2,056.4)	(1,979.8)	(1,965.3)

(vi) Fair value of financial instruments (continued)

#### (c) Valuation principles

The fair value of financial assets and liabilities are determined as follows:

- assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- other financial assets and liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- derivative financial instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments. Forward foreign exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates adjusted for counterparty credit risk, which is calculated based on credit default swaps of the respective counterparties. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates adjusted for counterparty credit risk which is calculated based on credit default swaps of the respective counterparties.

# (vii) Offsetting financial instruments

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. The ISDA agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because the Group does not have any current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. No collateral is paid or received.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

The table also sets out where the Group has offset bank overdrafts against cash at bank and in hand based on a legal right of offset as set out in the banking agreements.

	Gross amounts of financial assets in the Consolidated Balance Sheet €'m	Gross amounts of financial liabilities in the Consolidated Balance Sheet €'m	Amounts of financial instruments presented in the Consolidated Balance Sheet €'m	Related financial instruments that are not offset €'m	Net amount €'m
31 December 2016					
Financial assets					
Cash at bank and in hand	564.7	-	564.7	-	564.7
Forward foreign exchange contracts	54.8	-	54.8	(15.7)	39.1
Interest rate swaps	178.3	-	178.3	(6.2)	172.1
	797.8	-	797.8	(21.9)	775.9
Financial liabilities					
Bank overdrafts	-	(3.6)	(3.6)	-	(3.6)
Forward foreign exchange contracts	-	(21.0)	(21.0)	15.7	(5.3)
Interest rate swaps	-	(7.2)	(7.2)	6.2	(1.0)
	-	(31.8)	(31.8)	21.9	(9.9)
31 December 2015					
Financial assets					
Cash at bank and in hand	314.0	(77.6)	236.4	-	236.4
Forward foreign exchange contracts	20.2	=	20.2	(15.4)	4.8
Interest rate swaps	169.9	=	169.9	(6.3)	163.6
	504.1	(77.6)	426.5	(21.7)	404.8
Financial liabilities					
Bank overdrafts	77.6	(82.8)	(5.2)	=	(5.2)
Forward foreign exchange contracts	=	(25.1)	(25.1)	15.4	(9.7)
Interest rate swaps	-	(6.5)	(6.5)	6.3	(0.2)
	77.6	(114.4)	(36.8)	21.7	(15.1)

#### 25. PROVISIONS

			Non-Trading	
		Insurance	Items	Total
	Note	€'m	€'m	€'m
Group:				
At 1 January 2015		73.3	32.2	105.5
Provided during the financial year		2.3	1.4	3.7
Utilised during the financial year		(5.0)	(9.8)	(14.8)
Transferred to payables and accruals		=	(6.5)	(6.5)
Exchange translation adjustment	30	2.9	-	2.9
At 31 December 2015		73.5	17.3	90.8
Provided during the financial year		1.6	0.5	2.1
Utilised during the financial year		(9.7)	(1.6)	(11.3)
Transferred to payables and accruals		-	(3.6)	(3.6)
Exchange translation adjustment	30	(6.6)	(0.2)	(6.8)
At 31 December 2016		58.8	12.4	71.2
			2016	2015
			€'m	€'m
Analysed as:				
Current liabilities			30.4	31.7
Non-current liabilities			40.8	59.1
			71.2	90.8

#### Insurance

The Group operates a level of self-insurance and under these arrangements the Group retains certain insurance exposure up to pre-determined selfinsurance thresholds. These thresholds are reviewed on a regular basis to ensure they remain appropriate. The insurance provision represents amounts provided based on industry information, actuarial valuation and historical data in respect of claims that are classified as incurred but not reported and also the outstanding loss reserve. Both are covered by the Group's self-insurance schemes. The methodology of estimating the provision is periodically reviewed to ensure that the assumptions made continue to be appropriate. The utilisation of the provision is dependent on the timing of settlement of the outstanding claims. Historically, the average time for settlement of outstanding claims ranges from 3 - 6 years from claim date.

# Non-trading items

Non-trading items relate primarily to restructuring provisions incurred in 2013, the majority of which related to redundancy and contract compensation owing to people who are in the process of transitioning out of the business. These costs are expected to be paid during 2017.

# 26. RETIREMENT BENEFITS OBLIGATION

The Group operates post-retirement benefit plans in a number of its businesses throughout the world. These plans are structured to accord with local conditions and practices in each country they operate in and can include both defined contribution and defined benefit plans. The assets of the schemes are held, where relevant, in separate trustee administered funds.

Defined benefit post-retirement schemes exist in a number of countries in which the Group operates, primarily in Ireland and the Netherlands (Eurozone), the UK and the USA (included in Rest of World). These defined benefit plans mostly include final salary pension plans but also include career average salary pension plans and post-retirement medical plans. The post-retirement medical plans operated by the Group relate primarily to a number of USA employees. Defined benefit schemes in Ireland, the UK, and the USA are administered by Boards of Trustees. The Boards of Trustees comprise of representatives of the employees, the employer and independent trustees. These Boards are responsible for the management and governance of the plans including compliance with all relevant laws and regulations.

The values used in the Group's financial statements are based on the most recent actuarial valuations and have been updated by the individual schemes' independent and professionally qualified actuaries to incorporate the requirements of IAS 19 'Employee Benefits' in order to assess the liabilities of the various schemes as at 31 December 2016 using the projected unit credit method. All assets in the schemes have been measured at their fair value at the balance sheet date. Full actuarial valuations for funding purposes are carried out for the Group's pension plans in line with local requirements. The actuarial reports are not available for public inspection.

As part of the 1 Kerry strategy the Group is endeavouring to harmonise, standardise and integrate the benefit offering to employees across the countries in which it operates. This programme is being rolled out across our European, American and Asian entities over a five year period. The review in 2016 focused on a number of countries in Europe and Asia including Ireland. As a result of the review a number of benefit changes were introduced which included a decision to close the defined benefit schemes in Ireland to future accrual effective from September 2016 with future service being offered to employees in the Irish defined contribution scheme. As part of this transition members were also offered an opportunity to transfer their past service benefits to the defined contribution scheme. The impact of the benefit changes relating to pensions implemented in 2016 on the Consolidated Income Statement was €13.5m while scheme liabilities were reduced by €88.4m. In 2015, €14.5m was recognised in the Consolidated Income Statement relating primarily to a number of deferred members who transferred their benefits out of the Irish and UK defined benefit schemes.

The defined benefit plans expose the Group to actuarial risks such as interest rate risk, investment risk, inflation risk and mortality risk.

#### Interest rate risk

The calculation of the present value of the defined benefit obligation is sensitive to the discount rate which is derived from the interest yield on high quality corporate bonds at the balance sheet date. Market conditions in recent years have resulted in volatility in discount rates which has significantly impacted the present value of the defined benefit obligation. Such changes lead to volatility in the Group's Consolidated Balance Sheet, Consolidated Income Statement and Consolidated Statement of Comprehensive Income. It also impacts on the funding requirements for the plans.

#### Investment risk

The net deficit recognised in the Consolidated Balance Sheet represents the present value of the defined benefit obligation less the fair value of the plan assets. When assets return a rate less than the discount rate this results in an increase in the net deficit. Currently the plans have a diversified portfolio of investments in equities, bonds and other types of investments. External investment consultants periodically conduct an investment review and advise on the most appropriate asset allocation taking account of asset valuations, funding requirements, liability duration and the achievement of an appropriate return on assets

#### Inflation risk

A significant proportion of the defined benefit obligation is linked to inflation. An increase in inflation rates will increase the defined benefit obligation. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the defined benefit obligation.

#### (i) Recognition in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income

The following amounts have been recognised in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income in relation to defined contribution and defined benefit post-retirement plans:

	2016	2015
	€'m	€'m
Service cost:		
- Costs relating to defined contribution schemes	30.5	27.0
- Current service cost relating to defined benefit schemes	20.7	28.3
- Past service and settlements	(13.5)	(14.5)
Net interest cost	7.9	13.5
Recognised in the Consolidated Income Statement	45.6	54.3
Re-measurements of the net defined benefit liability:		
- Return on plan assets (excluding amounts included in net interest cost)	(149.4)	6.2
- Experience gains on schemes' liabilities	(4.1)	(49.5)
- Actuarial (gains)/losses arising from changes in demographic assumptions	(14.5)	6.0
- Actuarial losses/(gains) arising from changes in financial assumptions	338.3	(103.8)
Recognised in the Consolidated Statement of Comprehensive Income	170.3	(141.1)
Total	215.9	(86.8)

The total service cost is included in total staff numbers and costs (note 4) and the net interest cost is included in finance income and costs (note 6).

# (i) Recognition in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income (continued)

#### Pension levy

During 2011, the Finance (No. 2) Act introduced an annual levy of 0.6% on the market value of assets held in pension schemes in Ireland from 2011 to 2014. In 2014 an additional levy of 0.15% was introduced resulting in a total levy for 2014 of 0.75%; while the levy for the final year, 2015, was reduced to a rate of 0.15%. The levy is payable on the value of assets at the previous year end date. The final levy payment made in respect of the assets held at 31 December 2015 was €0.5m.

#### (ii) Recognition in the Consolidated Balance Sheet

The Group's net defined benefit post-retirement schemes' deficit at 31 December, which has been recognised in the Consolidated Balance Sheet, was as follows:

	31 December	31 December
	2016	2015
	€'m	€'m
Present value of defined benefit obligation	(1,718.4)	(1,576.0)
Fair value of plan assets	1,365.6	1,270.3
Net recognised deficit in plans before deferred tax	(352.8)	(305.7)
Net related deferred tax asset	60.9	52.4
Net recognised deficit in plans after deferred tax	(291.9)	(253.3)

#### (iii) Financial and demographic assumptions

The principal financial assumptions used by the pension schemes' actuaries in order to calculate the defined benefit obligation at 31 December, some of which have been shown in range format to reflect the differing assumptions in each scheme, were as follows:

	2016				2015	
			Rest of			Rest of
	Eurozone	UK	World	Eurozone	UK	World
	%	%	%	%	%	%
Inflation assumption	1.70	3.20	2.50	1.50	3.10	2.50
Rate of increase in salaries	2.70*	3.00	3.00	1.80 - 2.50	3.10	3.00
Rate of increase for pensions in payment and deferred pensions	1.70	2.20 - 3.20	-	1.00 - 1.50	2.10 - 3.10	-
Rate used to discount schemes' liabilities	2.00	2.70	3.25 - 4.00	2.70	4.00	3.50 - 4.25

<sup>\*</sup> The rate of increase in salaries applies to the defined benefit plans in the Netherlands only, as the Irish defined benefit plans are closed to future accrual.

The most significant demographic assumption is mortality. The mortality assumptions used are based on advice from the pension schemes' actuaries and reflect each scheme's population. The life expectancy of a member retiring at 31 December at age 65, now and in 20 years' time, some of which have been shown in range format to reflect the differing assumptions in each scheme, is as follows:

	2016			2015		
			Rest of			Rest of
	Eurozone	UK	World	Eurozone	UK	World
	Years	Years	Years	Years	Years	Years
Male - retiring now	22 - 23	21	21 - 22	20 - 24	21	21 - 23
Female - retiring now	24 - 25	23	23 - 24	23 - 26	23	23 - 24
Male - retiring in 20 years' time	24 - 25	23	22 - 24	22 - 26	23	23 - 24
Female - retiring in 20 years' time	26 - 27	25	24 - 25	25 - 28	25	25 - 26

# (iii) Financial and demographic assumptions (continued)

There are inherent uncertainties surrounding the financial and demographic assumptions adopted by the Group. The assumptions may differ from the actual data as a result of changes in economic and market conditions as well as the actual experience within each scheme. The present value of post-retirement benefit schemes' liabilities is heavily dependent on the discount rate. As the discount rate is based on a market driven measure, which is the interest yield on high quality corporate bonds at the balance sheet date, the present value of post-retirement benefit schemes' liabilities can fluctuate significantly from valuation to valuation. The expected rate of inflation impacts the schemes' liabilities in that inflation is the basis for the calculation of the assumed future salary and revaluation increases in each scheme where applicable. In relation to demographic assumptions, differing expectations regarding current and future changes in mortality rates can have a significant impact on schemes' liabilities.

The table below gives an approximate indication of the impact of a change in the principal financial actuarial assumptions (discount rate, inflation rate, salary increases and pensions in payment and deferred pensions increases) and the principal demographic actuarial assumption (mortality) on the schemes' liabilities. The present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognised in the Consolidated Balance Sheet. The impact on the defined benefit obligation at 31 December 2016 is calculated on the basis that only one assumption is changed with all other assumptions remaining unchanged. The assessment of the sensitivity analysis below could therefore be limited as a change in one assumption may not occur in isolation as assumptions may be correlated. There have been no changes from the previous year in the methods and assumptions used in preparing the sensitivity analysis.

Assumption	Change in assumption	Impact on schemes' liabilities
Discount rate	Increase/decrease of 0.50%	Decrease/increase of 12.0%
Inflation rate	Increase/decrease of 0.50%	Increase/decrease of 8.2%
Salary increases	Increase/decrease of 0.50%	Increase/decrease of 1.0%
Pensions in payment and deferred pensions increases	Increase/decrease of 0.50%	Increase/decrease of 7.0%
Mortality	Increase/decrease in life expectancy of 1 year	Increase/decrease of 3.2%

#### (iv) Reconciliations for defined benefit plans

The movements in the defined benefit schemes' obligation during the financial year were:

		2016	2015
	Note	€'m	€'m
Present value of the defined benefit obligation at beginning of the financial year		(1,576.0)	(1,667.4)
Current service cost		(20.7)	(28.3)
Past service and settlements		13.5	14.5
Interest expense		(50.0)	(53.4)
Contributions by employees		(6.0)	(7.9)
Benefits paid		51.5	53.2
Re-measurements:			
- experience gains on schemes' liabilities		4.1	49.5
- actuarial gains/(losses) arising from changes in demographic assumptions		14.5	(6.0)
- actuarial (losses)/gains arising from changes in financial assumptions		(338.3)	103.8
Decrease arising on settlement		74.9	32.1
Other movements		-	(2.7)
Exchange translation adjustment	30	114.1	(63.4)
Present value of the defined benefit obligation at end of the financial year		(1,718.4)	(1,576.0)
Present value of the defined benefit obligation at end of the financial year that relates to:			
Wholly unfunded plans		(30.1)	(23.9)
Wholly or partly funded plans		(1,688.3)	(1,552.1)
		(1,718.4)	(1,576.0)

# (iv) Reconciliations for defined benefit plans (continued)

The weighted average duration of the defined benefit obligation at 31 December 2016 is approximately 23 years (2015: approximately 21 years).

The movements in the schemes' assets during the financial year were:

	Note	2016 €'m	2015 €'m
Fair value of plan assets at beginning of the financial year	Note	1,270.3	1.194.6
Interest income		42.1	39.9
Contributions by employer		125.4	71.2
Contributions by employees		6.0	7.9
Benefits paid		(51.5)	(53.2)
Re-measurements:			
- return on plan assets (excluding amounts included in net interest cost)		149.4	(6.2)
Decrease arising on settlement		(74.9)	(32.1)
Exchange translation adjustment	30	(101.2)	48.2
Fair value of plan assets at end of the financial year		1,365.6	1,270.3
Equities		€'m	€'m
·		683.5	702.3
- Global Equities		64.9	702.3 56.5
- Emerging Market Equities		67.7	58.5
- Global Small Cap Equities Government Fixed Income		321.0	288.0
Government Fixed Income Other Fixed Income		321.0 121.5	288.C 108.5
		121.5	108.5
Multi-asset Funds			
- Diversified Growth Funds		52.8	-
- Hedge Funds		1.6	52.2
Cash and other		52.6	4.3
Total fair value of pension schemes' assets		1.365.6	1.270.3

The majority of equity securities and bonds have quoted prices in active markets. In addition, a very high proportion of the underlying assets in the funds of hedge funds are in the form of quoted securities. The schemes' assets are invested with professional investment managers or in insurance contracts. Investments in the Group's own financial instruments, if any, are solely at the discretion of the investment managers concerned. The actual amount of the Group's own financial instruments held by the pension schemes during 2016 and 2015 were not material. No property held by the pension schemes was occupied by the Group nor were any other pensions schemes' assets used by the Group during 2016 or 2015.

There are a number of defined benefit pension plans being operated by the Group in a number of countries, and within some of these countries multiple plans are operated. Each plan is required to be operated in line with local legislation, conditions, practices and the regulatory framework in place for the specific country. As a result, there are a number of different funding arrangements in place that accord with the specific local legislative, regulatory and actuarial requirements.

Future accrual for the most significant plans is funded partly by the employees, where they are required to contribute a fixed percentage of pensionable salary; and partly by the Group's subsidiaries, being a percentage of pensionable salary as advised by the actuaries and agreed between the Group and the relevant Trustees. Deficit funding is carried out by cash contributions from the Group's subsidiaries. Similar to the funding of future accrual, these funding arrangements have been advised by the pension schemes' actuaries and agreed between the Group and the relevant Trustees. It is the aim of the Group to eliminate the most significant deficits, being those in Ireland and the UK, on average over ten years. Actuarial valuations, which are not available for public inspection, are carried out every three years in Ireland and the UK; and every year in the USA. During the financial year ending 31 December 2017, the Group expects to make contributions of approximately €51.4m in relation to its defined benefit plans.

#### 27. SHARE CAPITAL

	2016 €'m	2015 €'m
Group and Company:		
Authorised		
<b>280,000,000</b> A ordinary shares of 12.50 cent each	35.0	35.0
Allotted, called-up and fully paid (A ordinary shares of 12.50 cent each)		
At beginning of the financial year	22.0	22.0
Shares issued during the financial year	-	-
At end of the financial year	22.0	22.0

The Company has one class of ordinary share which carries no right to fixed income.

#### Shares issued

During 2016 a total of 126,362 (2015: 77,867) A ordinary shares, each with a nominal value of 12.50 cent, were issued at nominal value per share under the Long Term and Short Term Incentive Plans.

The total number of shares in issue at 31 December 2016 was 176.010.831 (2015: 175.884.469).

#### Share buy back programme

At the 2016 Annual General Meeting shareholders passed a resolution authorising the Company to purchase up to 5% of its own issued share capital which was not exercised in the year. In 2016 and 2015, no shares were purchased under this programme.

## 28. SHARE-BASED PAYMENTS

The Group operates two equity-settled share-based payment plans. The first plan is the Group's Long Term Incentive Plan and the second is the element of the Group's Short Term Incentive Plan that is settled in shares/share options after a 2 year deferral period. Details on each of these plans are outlined below.

The Group recognised an expense of €7.8m (2015: €9.0m) related to equity-settled share-based payment transactions in the Consolidated Income Statement during the financial year. The expectation of meeting performance criteria was taken into account when calculating this expense.

# (i) Long Term Incentive Plan

#### 2006 Long Term Incentive Plan scheme

The Group operates an equity-settled Long Term Incentive Plan (LTIP), under which an invitation to participate was made to Executive Directors and senior executives. These invitations were made on six occasions between 2006 and 2013. No further conditional awards were made under this scheme after 2013. The proportion of each invitation which vests will depend on the Total Shareholder Return (TSR) and Adjusted Earnings Per Share (EPS) performance of the Group during a three year period ("the performance period"). A proportion of invitations made in 2013 vested during 2016.

Up to 50% of the shares/share options subject to an invitation will vest according to the Group's TSR performance during the performance period measured against the TSR performance of a peer group of listed companies. The remaining 50% of the shares/share options subject to an invitation will vest according to the Group's adjusted EPS growth performance compared with the inflation adjusted targets during the performance period. An invitation may lapse if a participant ceases to be employed within the Group before the vesting date.

## 2013 Long Term Incentive Plan scheme

In 2013 the Group introduced a new Long Term Incentive Plan that replaced the old scheme entirely from 2014 onwards. An invitation to participate was made to Executive Directors and senior executives. The proportion of each invitation which vests, will depend on the Adjusted Earnings Per Share (EPS) performance, Total Shareholder Return (TSR) and Return on Average Capital Employed (ROACE) of the Group during a three year period ("the performance period"). The invitations made in 2014, 2015 and 2016 will potentially vest in 2017, 2018 and in 2019 respectively. 50% of the award will be issued at the date of vesting, with 50% being issued after a 2 year deferral period.

Up to 50% of the shares/share options subject to an invitation will vest according to the Group's adjusted EPS growth compared with target during the performance period. Up to 30% of the shares/share options subject to an invitation will vest according to the Group's TSR performance during the performance period measured against the TSR performance of a peer group of listed companies. The remaining 20% of the shares/share options will vest according to the Group's ROACE versus predetermined targets. An invitation may lapse if a participant ceases to be employed within the Group before the vesting date.

# 28. SHARE-BASED PAYMENTS (continued)

# (i) Long Term Incentive Plan (continued)

#### 2013 Long Term Incentive Plan scheme (continued)

Under the 2013 Long Term Incentive Plan (LTIP), the Group introduced career shares awards, under which an invitation to participate was made to a limited number of senior executives. The proportion of each invitation which vests, will depend on personal objectives during a three year period ("the performance period") and the senior executives remaining within the Group for a four year period ("the retention period"). The invitations made in 2014 and 2015 will potentially vest in 2020 and in 2020/2021 respectively. An invitation may lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 31 December and the changes during the financial year are presented below:

	Number of Conditional Awards 2016	Number of Conditional Awards 2015
Outstanding at beginning of the financial year	1,035,376	752,766
Forfeited	(80,418)	(32,187)
Shares vested	(75,923)	(52,148)
Share options vested	(62,369)	(42,299)
Relinquished	(98,130)	=
New conditional awards	337,232	409,244
Outstanding at end of the financial year	1,055,768	1,035,376
	Number of Share Options 2016	Number of Share Options 2015
Share options arising under the LTIP		
Outstanding at beginning of the financial year	255,928	239,348
Vested	40,520	42,299
Exercised	(65,686)	(25,719)
Outstanding and exercisable at end of the financial year	230,762	255,928

Share options under the LTIP scheme have an exercise price of 12.5 cent. The remaining weighted average life for share options outstanding is **4.1 years** (2015: 3.92 years). The weighted average share price at the date of exercise was **€78.10** (2015: €53.06). 21,849 share options which vested in the financial year are deferred and therefore are not exercisable at year end.

#### 28. SHARE-BASED PAYMENTS (continued)

# (i) Long Term Incentive Plan (continued)

At the invitation grant date, the fair value per conditional award and the assumptions used in the calculations are as follows:

		2006 LTIP Scheme			
	2016 Conditional Award at	2015 Conditional Award at	2014 Conditional Award at	2013 Conditional Award at	2013 Conditional Award at
Conditional Award Invitation date	Grant Date March 2016	Grant Date March 2015	Grant Date March 2014	Grant Date  June/September 2013	Grant Date  March 2013
Year of potential vesting	2019	2018/2020/2021	2017/2020	2016	2016
Share price at grant date	€79.80	€64.92	€53.80	€43.28/€44.90	€46.49
Exercise price per share/share options	€0.125	€0.125	€0.125	€0.125	€0.125
Expected volatility	19.1%	18.4%	20.8%	21.3%/21.4%	22.6%
Expected life	3 years	3/5/6 years	3/6 years	3 years	3 years
Risk free rate	(0.5%)	0.0%	0.4%	0.4%/0.5%	0.2%
Expected dividend yield	0.7%	0.8%	0.9%	1.0%	1.0%
Expected forfeiture rate	5.0%	5.0%	5.0%	5.0%	5.0%
Weighted average fair value at grant date	€68.72	€52.96/€61.74	€44.74/€50.47	€34.40/€35.25	€33.75
Valuation model	Monte Carlo Pricing				

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. Market based vesting conditions, such as the TSR condition, have been taken into account in establishing the fair value of equity instruments granted. The TSR performance over the period is measured against the TSR performance of a peer group of listed companies. Non-market based performance conditions, such as the EPS and ROACE conditions, were not taken into account in establishing the fair value of equity instruments granted, however the number of equity instruments included in the measurement of the transaction is adjusted so that the amount recognised is based on the number of equity instruments that eventually vest.

#### (ii) Short Term Incentive Plan

In 2013 the Group's Short Term Incentive Plan for Executive Directors was amended to incorporate a share-based payment element with 25% of the total bonus to be settled in shares/share options. The shares/share options awarded as part of this scheme will be issued 2 years after the vesting date once a deferral period has elapsed. There are no further performance conditions relating to the shares/share options during the deferral period.

A share-based payment expense is recognised in the Consolidated Income Statement for the scheme to reflect the cash value of the bonus to be paid by way of shares/share options. The first shares/share options issued under the Short Term Incentive Plan, which relate to the 2013 financial year, vested in 2014 and were deferred until 2016. The second tranche of the issuance of the shares/share options under the Short Term Incentive Plan, which relate to the 2014 financial year, vested in 2015 and will be deferred until 2017. The third tranche of the issuance of the shares/share options under the Short Term Incentive Plan, which relate to the 2015 financial year, vested in 2016 and will be deferred until 2018. The fourth tranche of the issuance of the shares/ share options under the Short Term Incentive Plan, which relate to the 2016 financial year, will vest in 2017 and will be deferred until 2019.

# 29. CASH FLOW COMPONENTS

		Group	Group	Company	Company 2015
	Notes	2016 €'m	2015 €'m	2016 €'m	2015 €'m
Profit before taxation		611.8	602.8	116.0	226.2
Intangible asset amortisation	12	46.4	37.4	-	-
Non-trading items	5	21.0	(9.4)	-	=
Finance income	6	(1.1)	(1.8)	-	-
Finance costs	6	71.5	71.1	-	-
Trading profit		749.6	700.1	116.0	226.2
Change in working capital					
(Increase)/decrease in inventories		(5.3)	45.4	-	-
Increase in trade and other receivables		(18.5)	(11.2)	(16.1)	(61.7)
Increase/(decrease) in trade and other payables		77.7	21.6	(16.1)	(91.7)
Share-based payment expense	28	7.8	9.0	7.8	9.0
		61.7	64.8	(24.4)	(144.4)
Purchase of assets					
Purchase of property, plant and equipment		(202.8)	(216.8)	-	-
Purchase of assets classified as held for sale		-	(0.5)	-	-
Purchase of intangible assets	12	(16.5)	(31.6)	-	-
Purchase of financial assets	13	(4.5)	(3.3)	-	-
		(223.8)	(252.2)	-	-
Cash and cash equivalents					
Cash at bank and in hand	23	564.7	236.4	0.1	0.1
Bank overdrafts	23	(3.6)	(5.2)	(0.1)	(0.7)
		561.1	231.2	-	(0.6)

# 30. EFFECT OF EXCHANGE TRANSLATION ADJUSTMENTS

		2016	2015
	Notes	€'m	€'m
Group:			
(Decrease)/increase in assets			
Property, plant and equipment	11	(18.1)	53.4
Intangible assets	12	(28.9)	66.2
Financial asset investments	13	0.8	2.8
Inventories		(3.4)	23.6
Trade and other receivables		(9.1)	10.7
Cash at bank and in hand		(0.1)	0.5
Assets classified as held for sale		(1.0)	0.9
Deferred tax assets	17	0.1	-
Decrease/(increase) in liabilities			
Trade and other payables		49.1	(60.6)
Tax liabilities		6.1	(1.1)
Financial liabilities		(23.7)	(92.4)
Retirement benefits obligation	26	12.9	(15.2)
Other non-current liabilities		(3.1)	(10.7)
Deferred tax liabilities	17	(6.4)	(0.3)
Provisions	25	6.8	(2.9)
Deferred income	21	-	(0.5)
Retained earnings		0.1	(0.7)
Cumulative exchange difference on translation recycled on disposal	5	-	0.8
		(17.9)	(25.5)

The above exchange translation adjustments arise primarily on the retranslation of the Group's opening net investment in its foreign currency subsidiaries.

# 31. BUSINESS COMBINATIONS

During 2016, the Group completed a total of two bolt-on acquisitions, both of which are 100% owned by the Group. In March 2016, the Group acquired Jungjin Food Co. Ltd., a manufacturer and supplier of seasonings, savoury powders and flavours based in South Korea. In June 2016, the Group acquired Vendin S.L., a Spanish based manufacturer of dry beverages powders for use in vending machines and in the foodservice industry.

		Tota 2016
	Notes	2016 €'m
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Non-current assets		
Property, plant and equipment	11	2.9
Brand related intangibles	12	11.7
Computer software	12	0.
Current assets		
Cash at bank and in hand		0.2
Inventories		1.6
Trade and other receivables		5.
Current liabilities		
Trade and other payables		(4.1)
Non-current liabilities		
Other non-current liabilities		(3.6)
Total identifiable assets		13.9
Goodwill	12	8.8
Total consideration		22.4
0.05.11		
Satisfied by: Cash		04 -
		21.7
Deferred payment		0.
Other		0.6
		22.4
		2016
Net cash outflow on acquisition:		€'m
Cash		21.7
Less: cash and cash equivalents acquired		(0.2)
Plus: debt acquired		0.
Other		0.6
		22.2

The acquisition method of accounting has been used to consolidate the businesses acquired in the Group's financial statements. The valuation of the fair value of assets and liabilities will be completed within the measurement period. This valuation has yet to be finalised.

The goodwill is attributable to the expected profitability, revenue growth, future market development and assembled workforce of the acquired businesses and the synergies expected to arise within the Group after the acquisition. No goodwill recognised is expected to be deductible for income tax purposes.

Transaction expenses related to these acquisitions of €1.0m were charged in the Group's Consolidated Income Statement during the financial year. The fair value of the financial assets includes trade and other receivables with a fair value of €5.1m and a gross contractual value of €5.2m.

The revenue and trading results of the acquisitions in the period since acquisition and the impact on the Group's results had the acquisitions taken place at the beginning of the financial year, are not considered material to the Group (combined less than €1.0m profit after tax). The identifiable net assets acquired as part of the Jungjin Food Co. Ltd. and Vendin S.L. acquisitions were not material to the Group, therefore were not disclosed separately in this note.

#### 31. BUSINESS COMBINATIONS (continued)

## 2015 Acquisitions

During 2015, the Group completed a total of ten acquisitions, all of which are 100% owned by the Group. The initial assessment of fair values to identifiable net assets acquired was performed on a provisional basis in respect of certain acquisitions. As part of the finalisation of the fair value exercise in respect of certain 2015 acquisitions, the Group considered the overall level of goodwill arising on the acquisitions and the valuations applied to intangible and tangible assets acquired, reducing the overall level of goodwill arising on acquisitions by €93.9m. The amendments to these fair values were made to the comparative figures during the subsequent reporting window within the measurement period imposed by IFRS 3. The provisional fair value of these assets recorded at 31 December 2015, together with the adjustments made to those carrying values to arrive at the final fair values were as follows:

	Provisional fair values of 2015 acquisitions 2015 €'m	Measurement period adjustments 2015 €'m	Total 2015 €'m
Property, plant and equipment	61.2	(21.1)	40.1
Goodwill arising on acquisition	409.3	(93.9)	315.4
Other brand-related intangibles	377.3	127.2	504.5
Non-current assets	847.8	12.2	860.0
Current assets	118.1	(9.4)	108.7
Non-current liabilities	(33.9)	-	(33.9)
Current liabilities	(38.8)	(2.8)	(41.6)
Total identifiable assets	893.2	=	893.2
Total consideration	893.2	-	893.2

#### 32. CONTINGENT LIABILITIES

	2016	2015
	€'m	€'m
Company:		
(i) Guarantees in respect of borrowings of subsidiaries	2,031.1	2,018.2

(ii) For the purposes of Section 357 of the Companies Act, 2014, the Company has undertaken by Board resolution to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland, as set out in note 37, in respect of all amounts shown as liabilities in the statutory financial statements as referred to in Section 357 (1) (b) of the Companies Act, 2014 for the financial year ending on 31 December 2016 or any amended financial period incorporating the said financial year. The Company has given similar indemnities in relation to its subsidiaries in Luxembourg and the Netherlands (Article 70 of the Luxembourg law of 19 December 2002 as amended and Article 2 of the Dutch Civil Code), as set out in note 37. In addition, the Company has also availed of the exemption from filing subsidiary financial statements in Luxembourg, the Netherlands and Ireland.

The Company does not expect any material loss to arise from these guarantees and considers their fair value to be negligible.

# 33. OTHER FINANCIAL COMMITMENTS

(i) Commitments for the acquisition of property, plant, equipment and computer software at 31 December for which no provision has been made in the accounts are as follows:

	2016	2015
	€'m	€'m
Group:		
Commitments in respect of contracts placed	44.9	30.2
Expenditure authorised by the Directors but not contracted for at the financial year end	198.9	64.8
	243.8	95.0
	2016 €'m	2015 €'m
Within 1 year	20.3	24.1
Within 2 to 5 years	34.6	35.7
After 5 years	12.2	16.0
	67.1	75.8

The operating lease charges during 2016 amounted to €27.5m (2015: €29.9m).

The Group leases various buildings, plant and machinery, and motor vehicles under non-cancellable lease arrangements. The Group has a number of leases but none of these leases are individually material. The leases have various terms, escalation clauses and renewal rights. These leases range from less than 1 year to 65 years.

## 34. RELATED PARTY TRANSACTIONS

## (i) Trading with Directors

In their ordinary course of business as farmers, certain Directors have traded on standard commercial terms with the Group's Agribusiness division. Aggregate purchases from, and sales to, these Directors amounted to €0.4m (2015: €0.3m) and €0.1m (2015: €0.1m) respectively. The trading balance outstanding to the Group at the financial year end was €nil (2015: €nil).

All transactions with Directors were on standard commercial terms. The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the financial year for bad or doubtful debts in respect of amounts owed by Directors.

# (ii) Trading between Parent Company and subsidiaries

Transactions in the financial year between the Parent Company and its subsidiaries included dividends received of €124.0m (2015: €241.0m), cost recharges of €5.3m (2015: €10.9m), and trade and other receivables of €99.3m (2015: €63.3m). The Parent Company has also provided a guarantee in respect of borrowings of subsidiaries which is disclosed in note 32.

#### (iii) Trading with associate company

Details of transactions and balances outstanding with associate are as follows:

					Amount	s receivable
	Rendering	g of services	Purcha	ase of goods	at 3	31 December
	2016	2015	2016	2015	2016	2015
	€'m	€'m	€'m	€'m	€'m	€'m
Associate	0.5	1.0	(0.1)	(4.0)	-	0.9

These trading transactions are undertaken and settled at normal trading terms. No loans were advanced in 2016 and 2015 and no interest was received.

#### (iv) Trading with other related parties

As detailed in the Directors' Report, Kerry Co-operative Creameries Limited is considered to be a related party of the Group as a result of its significant shareholding in the Parent Company. During 2016, dividends of €12.5m (2015: €11.2m) were paid to Kerry Co-operative Creameries Limited based on its shareholding. A subsidiary of Kerry Group plc traded product to the value of €0.1m (2015: €0.1m) on behalf of Kerry Co-operative Creameries Limited.

# (v) Transactions with key management personnel

The Board of Directors are deemed to be key management personnel of Kerry Group plc as they are responsible for planning, directing and controlling the activities of the Group.

In addition to their salaries and short-term benefits, the Group also contributes to post retirement defined benefit, defined contribution and saving plans on behalf of the Executive Directors. The Directors also participate in the Group's Long Term Incentive Plan (LTIP) (note 26 and 28).

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Remuneration cost of key management personnel is as follows:

	2016	2015
	€'m	€'m
Short-term benefits (salaries, fees and other short-term benefits)	7.1	5.8
Post-retirement benefits	0.8	0.7
LTIP accounting charge	1.7	3.2
Other long-term benefits	-	=
Termination benefits	-	=
Total	9.6	9.7

Retirement benefit charges of €0.3m (2015: €0.2m) arise under a defined benefit scheme relating to 2 directors (2015: 2 directors) and charges of €0.5m (2015: €0.5m) arise under a defined contribution scheme relating to 4 directors (2015: 4 directors). The LTIP accounting charge above is determined in accordance with the Group's accounting policy for share-based payments.

Post-retirement benefits in the above table and the statutory and listing rules disclosure in respect of pension contributions in the executive directors remuneration table in the remuneration report are determined on a current service cost basis.

The aggregate amount of gains accruing to Executive Directors on the exercise of share options is €1.2m (2015: €nil). Dividends totalling €0.1m (2015: €0.1m) were also received by key management personnel during the financial year, based on their personal interests in the shares of the company.

## 35. EVENTS AFTER THE BALANCE SHEET DATE

Since the financial year end, the Group has:

- reached agreement to acquire *Tianning Flavour & Fragrance Co. Ltd* based in Shanghai, China and *Taste Master* based in Adelaide, Australia for a combined consideration of €83.0m; and
- proposed a final dividend of **39.20 cent** per A ordinary share (note 10).

There have been no other significant events, outside the ordinary course of business, affecting the Group since 31 December 2016.

#### 36. RESERVES

#### Capital redemption reserve

Capital redemption reserve represents the nominal cost of the cancelled shares in 2007.

#### Other undenominated capital

Other undenominated capital represents the amount transferred to reserves as a result of renominalising the share capital of the Parent Company due to the euro conversion in 2002.

#### Share-based payment reserve

The share-based payment reserve relates to invitations made to employees to participate in the Group's Long Term Incentive Plan and the element of the Group's Short Term Incentive Plan that is settled in shares/share options. Further information in relation to this share-based payment is set out in note 28.

# Translation reserve

Exchange differences relating to the translation of the balance sheets of the Group's foreign currency operations from their functional currencies to the Group's presentation currency (euro) are recognised directly in other comprehensive income and accumulated in the translation reserve.

# Hedging reserve

The hedging reserve represents the effective portion of gains and losses on hedging instruments from the application of cash flow hedge accounting for which the underlying hedged transaction is not impacting profit or loss. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss.

# Retained earnings

Retained earnings refers to the portion of net income, which is retained by the Group rather than distributed to shareholders as dividends.

# 37. GROUP ENTITIES

Principal subsidiaries and associated undertakings

Country	Company Name	Nature of Business	Registered Office
reland	Breeo Brands Limited	Consumer Foods	1
	Breeo Enterprises Limited	Consumer Foods	1
	Breeo Foods Limited	Consumer Foods	1
	Carteret Investments	Investment	1
	Charleville Research Limited	Services	1
	Cuarto Limited	Taste & Nutrition	1
	Dawn Dairies Limited	Consumer Foods	1
	Denny Foods Limited	Investment	1
	Duffy Meats Limited	Consumer Foods	1
	Dynaboo Limited	Consumer Foods	1
	Fambee Limited	Consumer Foods	1
	Glenealy Farms (Turkeys) Limited	Consumer Foods	1
	Golden Vale Clare Limited	Investment	1
	Golden Vale Dairies Limited	Agribusiness	1
	Golden Vale Holdings Limited	Investment	1
	Golden Vale Investments Limited	Investment	1
	Golden Vale Limited	Investment	1
	Henry Denny & Sons (Ireland) Limited	Consumer Foods	1
	Kerry Agribusiness Holdings Limited	Investment	1
	Kerry Agribusiness Trading Limited	Agribusiness	1
	Kerry Creameries Limited	Agribusiness	1
	Kerry Food Ingredients (Cork) Limited	Taste & Nutrition	1
	Kerry Group Business Services Limited	Services	1
	Kerry Group Financial Services	Services	. 1
	Kerry Group Finance International Limited	Services	1
	Kerry Group Services International Limited	Services	. 1
	Kerry Group Services Limited	Services	1
	Kerry Health and Nutrition Institute Limited	Taste & Nutrition	1
	Kerry Holdings (Ireland) Limited	Investment	1
	Kerry Ingredients & Flavours Limited	Taste & Nutrition	1
	Kerry Ingredients (Ireland) Limited	Taste & Nutrition	1
	Kerry Ingredients Holdings (Ireland) Limited	Investment	1
	Kerry Treasury Services Limited	Services	1
	Kerrykreem Limited	Consumer Foods	1
	Lifesource Foods Research Limited	Consumer Foods	1
	National Food Ingredients Limited	Taste & Nutrition	1
	•	Taste & Nutrition	1
	Newmarket Co-operative Creameries Limited		1
	Newmarket Marketing Company Limited	Taste & Nutrition	1
	Pixundo Limited	Consumer Foods	1
	Plassey Holdings Limited	Investment	1
	Platters Food Company Limited	Consumer Foods	1
	Princemark Holdings Limited	Services	1
	Quandu Limited	Consumer Foods	1
	Rye Developments Limited	Services	1
	Rye Investments Limited	Consumer Foods	1
	Rye Valley Foods Limited	Consumer Foods	

Principal subsidiaries and associated undertakings (continued)

Country	Company Name	Nature of Business	Registered Office
Ireland	Snowcream (Midlands) Limited	Agribusiness	1
	Selamor Limited	Consumer Foods	1
	Tacna Investments Limited	Investment	1
	Trundu Limited	Consumer Foods	1
	William Blake Limited	Taste & Nutrition	1
	Zenbury International Limited	Services	1
UK	Henry Denny & Sons (NI) Limited	Consumer Foods	2
	Dairy Produce Packers Limited	Taste & Nutrition	3
	Golden Cow Dairies Limited	Consumer Foods	3
	Golden Vale (NI) Limited	Investment	3
	Leckpatrick Dairies Limited	Consumer Foods	3
	Leckpatrick Holdings Limited	Investment	3
	Kerry Foods Limited	Consumer Foods	4
	Kerry Holdings (U.K.) Limited	Investment	4
	Kerry Savoury Foods Limited	Consumer Foods	4
	Noon Group Limited	Consumer Foods	4
	Noon Products Limited	Consumer Foods	4
	Rollover Holdings Limited	Consumer Foods	4
	Rollover Group Limited	Consumer Foods	4
	Rollover Limited	Consumer Foods	4
	EBI Foods Limited	Taste & Nutrition	5
	Gordon Jopling (Foods) Limited	Taste & Nutrition	5
	Kerry Ingredients (U.K.) Limited	Taste & Nutrition	5
	Kerry Ingredients Holdings (U.K.) Limited	Investment	5
	Titusfield Limited	Taste & Nutrition	5
	Kerry Flavours UK Limited	Taste & Nutrition	5
	Spicemanns Limited	Taste & Nutrition	6
	Addo Food Group Limited (22.5% shareholding)	Consumer Foods	7
	The Bodychef Limited (27.7% shareholding)	Consumer Foods	8
Belgium	Kerry Holdings Belgium	Taste & Nutrition	9
Netherlands	Kerry (NL) B.V.	Taste & Nutrition	10
	Kerry Group B.V.	Investment	10
	Kerry Netherlands Services B.V.	Investment	10
Czech Republic	Kerry Ingredients & Flavours s.r.o.	Taste & Nutrition	11
France	Kerry Ingredients France S.A.S.	Taste & Nutrition	12
	Kerry Ingredients Holdings (France) S.A.S.	Investment	12
	Kerry Savoury Ingredients France S.A.S.	Taste & Nutrition	12
	Kerry Flavours France S.A.S.	Taste & Nutrition	13
Germany	Kerry Food GmbH	Taste & Nutrition	14
	Kerry Ingredients GmbH	Taste & Nutrition	14
	SuCrest GmbH	Taste & Nutrition	15
	Vicos Nahrungsmittel GmbH	Taste & Nutrition	15
	Red Arrow Handels GmbH	Taste & Nutrition	16
Belarus	Vitella Vitebsk	Taste & Nutrition	17
Denmark	Cremo Ingredients A/S	Taste & Nutrition	18
Italy	Kerry Ingredients & Flavours Italia S.p.A.	Taste & Nutrition	19
Poland	Kerry Polska Sp. z.o.o.	Taste & Nutrition	20

Principal subsidiaries and associated undertakings (continued)

Country	Company Name	Nature of Business	Registered Office
Hungary	Kerry Hungaria KFT.	Taste & Nutrition	21
Luxembourg	Kerry Luxembourg S.a.r.l.	Services	22
	Zenbury International Limited S.a.r.l.	Services	22
	Everdine Holding S.a.r.l. (28.6% shareholding)	Consumer Foods	23
Romania	Kerry Romania s.r.l.	Taste & Nutrition	24
Russia	Kerry LLC	Taste & Nutrition	25
South Africa	Kerry Ingredients South Africa (Pty) Limited	Taste & Nutrition	26
	Orley Foods (Proprietary) Limited	Taste & Nutrition	27
Spain	Vendin S.L.	Taste & Nutrition	28
Slovakia	Dera SK s.r.o.	Taste & Nutrition	29
Sweden	Tarber AB	Taste & Nutrition	30
Ukraine	Dera Limited	Taste & Nutrition	31
USA	Kerry Holding Co.	Investment	32
	Kerry, Inc.	Taste & Nutrition	32
	Insight Beverages, Inc.	Taste & Nutrition	33
	Red Arrow International LLC	Taste & Nutrition	33
	Island Oasis Manufacturing LLC	Taste & Nutrition	34
Canada	Kerry (Canada) Inc.	Taste & Nutrition	35
Mexico	Kerry Ingredients (de Mexico) S.A. de C.V.	Taste & Nutrition	36
Brazil	Kerry do Brasil Ltda.	Taste & Nutrition	37
	Kerry da Amazonia Ingredientes e Aromas Ltda.	Taste & Nutrition	38
	Junior Alimentos Indústria e Comércio S.A.	Taste & Nutrition	39
Costa Rica	Prima S.A. de C.V.	Taste & Nutrition	40
	Baltimore Spice Central America S.A.	Taste & Nutrition	41
Chile	Kerry Chile Ingredientes, Sabores Y Aromas Ltda.	Taste & Nutrition	42
Colombia	Kerry Ingredients & Flavours Colombia S.A.S.	Taste & Nutrition	43
Panama	Baltimore Spice Panamá S.A.	Taste & Nutrition	44
Guatemala	Baltimore Spice Guatemala S.A.	Taste & Nutrition	45
El Salvador	Baltimore Spice de El Salvador S.A. de C.V.	Taste & Nutrition	46
Thailand	Kerry Ingredients (Thailand) Limited	Taste & Nutrition	47
Philippines	Kerry Food Ingredients (Philippines), Inc.	Taste & Nutrition	48
	Kerry Manufacturing Philippines, Inc.	Taste & Nutrition	49
Singapore	Kerry Ingredients (S) Pte Limited	Taste & Nutrition	50
Malaysia	Kerry Ingredients (M) Sdn. Bhd.	Taste & Nutrition	51
Japan	Kerry Japan Kabushiki Kaisha	Taste & Nutrition	52
China	Kerry Food Ingredients (Hangzhou) Company Limited	Taste & Nutrition	53
	Kerry Ingredients Trading (Shanghai) Company Limited	Taste & Nutrition	54
	Kerry Food (Nantong) Company Limited	Taste & Nutrition	55
Indonesia	PT Kerry Ingredients Indonesia	Taste & Nutrition	56
India	Kerry Ingredients India Private Limited	Taste & Nutrition	57
Australia	Kerry Ingredients Australia Pty Limited	Taste & Nutrition	58
New Zealand	Kerry Ingredients (NZ) Limited	Taste & Nutrition	59
South Korea	Kerry Ingredients Korea LLC	Taste & Nutrition	60
	Jungjin Food Co. Limited	Taste & Nutrition	61
Notes			

# Notes

- (1) All group entities are wholly owned subsidiaries unless otherwise stated.
- (2) Country represents country of incorporation and operation. Ireland refers to the Republic of Ireland.
- (3) With the exception of the USA, Canadian and Mexican subsidiaries, where the holding is in the form of common stock, all holdings are in the form of ordinary shares.

## **Registered Office**

- 1 Prince's Street, Tralee, Co. Kerry, Ireland.
- 2 6 Corcrain Road, Portadown, Craigavon, Co. Armagh NT32 3UF, Northern Ireland.
- 3 Millburn Road, Coleraine, Co. Londonderry BT52 1QZ, Northern Ireland.
- 4 Thorpe Lea Manor, Thorpe Lea Road, Egham, Surrey TW20 8HY, England.
- 5 Bradley Road, Royal Portbury Dock, Bristol BS20 7NZ, England.
- 6 59 Kelvin Avenue, Hillington, Glasgow G52 4LR, Scotland.
- 7 Queens Drive, Nottingham, NG2 1LU, England.
- 8 20 Central Avenue, St. Andrews Business Park, Norwich NR7 OHR, England.
- 9 Havenlaan 86C, Bus 204, 1000 Brussels, Belgium.
- 10 Maarssenbroeksedijk 2a, 3542 DN Utrecht, The Netherlands.
- 11 Marikova, 36 Brno, Czech Republic.
- 12 43 rue Louis Pasteur, 62575 Blendecques, France.
- 13 Zone Industrielle du Plan, BP 82067, 06131 Grasse, CEDEX, France.
- 14 Hauptstrasse 22-26, D-63924 Kleinheubach, Germany.
- 15 Neckarstraße 9, 65239 Hochheim/Main, Germany.
- 16 Hanna-Kunath-Strasse 25, 28199, Bremen, Germany.
- 17 Ul. P Browki 44, 210605 Vitebsk, Republic of Belarus.
- 18 Toftegardsvej 3, DK-5620, Glamsbjerg, Denmark.
- 19 Via Cappitani Di Mozzo 12/16, 24030 Mozzo (BG), Italy.
- 20 25-558 Kielce, Ul. Zagnanska 97a, Kielce, Poland.
- 21 1093 Budapest, Vámház krt. 13, Hungary.
- 22 17 Rue Antoine Jans, L-1820 Luxembourg, Grand-Duchy of Luxembourg, Luxembourg.
- 23 5, Heienhaff, L-1736 Senningerberg, Grand-Duchy of Luxembourg, Luxembourg.
- 24 Sectorul 3, 42 Dudesti-Pantelimon Road, 033094 Bucharest, Romania.
- 25 RigaLand Business Centre, 26 km Baltiya Highway , Krasnogorskiy District, 143421, Moscow, Russia.
- 26 Block 3, 4-6 Lucas Drive, Hillcrest, Durban, Kwazulu-Natal, South Africa.
- 27 15a Chain Avenue, Montague Gardens, Cape Town, South Africa.
- 28 Calle Coto de Doñana, 15, 28320 Pinto, Madrid, Spain.
- 29 Sancova 50, 811 04 Bratislava, Slovakia.
- 30 Nytorpsvägen 34, SE 18371 Täby, Sweden.
- 31 4 Korolenkivska str., Kiev, Ukraine.
- 32 1209 Orange Street, Wilmington, Delaware 19808, US.
- 33 635 Oakwood Road, Lake Zurich IL 60047, US
- 34 155 Federal Street, Suite 700, Boston, MA 02110, US.
- 35 Suite 3600, 55 King Street West, Toronto-Dominion Bank Tower, Toronto, M5K 1N6, Ontario, Canada.
- 36 Carr. Panamericana, Salamanca Km 11.2, 36660 Irapuato, Guanajuato, Mexico.
- 37 Rua Cristiano Alves da Silva, 15 Parque Jussara, Tres Coracoes MG, Brazil.
- 38 Av. Djalma Batista, no. 1661, Millennium Shopping Mall, Business Tower, Cidade De Manaus, Estado do Amazonas, Brazil.
- 39 Rua Vinte e Um de Abril, 221 Rod. Raposo Tavares Km 30,9 Jardim Barro Branco, Cotia SP, Brazil.
- 40 200 metros al este del Banco Nacional en la Uruca Contiguo a la Bomba Shell, San José, Costa Rica.
- 41 Del Liceo de Pavas 200 Oeste, 100 Norte Zip Code 1035-1200, San José, Costa Rica.
- 42 C.M. El Trovador No. 4280, Of 1205, Las Condes, Suc. Cerro Portezuelo 9901, Quilicura, Santiago, Chile.
- 43 CR 7 NO. 71 52 TO A P 5, Bogotá, Colombia.
- 44 Parque Industrial Costa del Este Calle Avenida Principal y 3ra Lote 88. Corregimiento, Parque Lefevre 0819-01869, Panama.
- 45 Avenida Petapa 52-20 zona 12, Guatemala.
- Condominio Edificio Gran Plaza Of 401 Col. San Benito. Boulevard El Hipodromo, San Salvador, El Salvador.
- 47 No 618, Moo 4, Bangpoo Industrial Estate, Praksa Sub District, Muang District, Samutprakarn Province, Thailand.
- 48 GF/SFB#1, Mactan Economic Zone 1, Lapulapu City, Cebu, Philippines.

# Registered Office (continued)

49	5th Ave Bgc, Taguig, Metro Manila, Philippines.
50	8 Biomedical Grove, #02-01/04 Neuros, Singapore 138665, Singapore.
51	Suite 1301, 13th Floor, City Plaza, Jalan Tebrau, 80300 Johor Bahru, Johor, Malaysia.
52	Kamiyacho Sankei Building. 2F, 1-7-2, Azabudai 1-chome, Minato-ku, Tokyo 106-0041, Japan.
53	Renhne Industry Zone, Jiulong Village, Hangzhou, China.
54	Room 248, Ximmao Building, 2 Tai Zhong Road South, Waigaoqiao Free Trade Zone, Shanghai, China.
55	North side of Xiang, Jiang Road, RuDong County, Nantong, China.
56	JL Industri Utama Blok SS No. 6, Jababeka II Mekarmukti, Cikarang Utara, Bekasi 17520, Indonesia.
57	Unit No. 302, 3rd Floor, Ecospace Campus 3B, Marathahalli – Sarjapur Outer Ring Road, Bellandur, Bangalore – 560103, Karnataka, India
58	No 8 Holker Street, Newington, NSW 2127, Australia.
59	11-13 Bell Avenue, Otahuhu, Auckland, New Zealand.
60	2th Fl., Sheenbang Bldg, 1366-18, Seocho-dong, Seocho-Gu, Seoul, 137-863, Republic of Korea.
61	#82 Yuolgum-5gil, Sunghwan-eup, Cheonan-si, Choongchungnam-do, Republic of Korea.

# SUPPLEMENTARY INFORMATION

(NOT COVERED BY INDEPENDENT AUDITORS' REPORT)

# **FINANCIAL DEFINITIONS**

# 1. REVENUE

Volume growth

This represents the sales volume growth year-on-year from ongoing business, excluding volumes from acquisitions net of disposals.

Volume growth is an important metric as it is seen as the key driver of top-line business improvement. This is used as the key revenue metric, as Kerry operates a pass-through pricing model with its customers to cater for raw material price fluctuations. A full reconciliation to reported revenue growth is detailed in the revenue reconciliation below.

Revenue Reconciliation

	Volume growth	Price	Transaction currency	Translation currency	Acquisitions / Disposals	revenue growth
Taste & Nutrition	4.0%	(2.1%)	(0.1%)	(3.2%)	4.9%	3.5%
Consumer Foods	2.1%	(2.0%)	(1.1%)	(6.6%)	(2.1%)	(9.7%)
Group	3.6%	(2.1%)	(0.3%)	(4.1%)	3.3%	0.4%

# 2. EBITDA

EBITDA represents profit after taxation and attributable to owners of the parent before finance income and costs, income taxes, depreciation (net), intangible asset amortisation and non-trading items.

EBITDA	882.4	828.5
Depreciation (including impairment)	132.8	128.4
Intangible asset amortisation	46.4	37.4
Non-trading items	21.0	(9.4)
Income taxes	78.7	77.4
Finance costs	71.5	71.1
Finance income	(1.1)	(1.8)
Profit after taxation and attributable to owners of the parent	533.1	525.4
	€'m	€'m
	2016	2015

# 3. TRADING PROFIT

Trading Profit refers to the operating profit generated by the businesses before intangible asset amortisation and gains or losses generated from non-trading items. Trading Profit represents operating profit before specific items that are not reflective of underlying trading performance and therefore hinder comparison of the trading performance of the Group's businesses, either year-on-year or with other businesses.

### 4. TRADING MARGIN

Trading Margin represents trading profit, expressed as a percentage of revenue.

# 5. NON-TRADING ITEMS

Non-trading items refers to gains or losses on the disposal of businesses, disposal of assets (non-current assets and assets classified as held for sale), costs in preparation of disposal of assets, material acquisition transaction costs and material acquisition integration and restructuring costs.

# 6. OPERATING PROFIT

Operating profit is profit before income taxes, finance income and finance costs.

## 7. OTHER EXTERNAL CHARGES

Other external charges primarily refers to selling, general and administrative expenses.

# 8. OTHER OPERATING CHARGES

Other operating charges primarily refers to manufacturing and warehousing costs.

#### 9. ADJUSTED EARNINGS PER SHARE

In addition to the basic and diluted earnings per share, an adjusted earnings per share is also provided as it is considered more reflective of the Group's underlying trading performance. Adjusted earnings is profit after taxation and attributable to owners of the parent before brand related intangible asset amortisation and non-trading items (net of related tax). These items are excluded in order to assist in the understanding of underlying earnings. A full reconciliation of adjusted earnings per share is provided in note 9 of these consolidated financial statements.

Adjusted earnings per share	323.4	301.9
Non-trading items (net of related tax)	7.4	(7.4)
Brand related intangible asset amortisation	13.1	10.6
Basic earnings per share	302.9	298.7
	cent	cent
	EPS	EPS
	2016	2015

#### 10. FREE CASH FLOW

Free Cash Flow is trading profit plus depreciation, movement in average working capital, capital expenditure, pensions costs less pension expense, finance costs paid (net) and income taxes paid.

Free Cash Flow is seen as an important indicator of the strength and quality of the business and of the availability to the Group of funds for reinvestment or for return to shareholders. Movement in average working capital is used when calculating free cash flow as management believes this provides a more accurate measure of the increase or decrease in working capital needed to support the business over the course of the year rather than at two distinct points in time. Movement in average working capital measures more accurately fluctuations caused by seasonality and other timing factors. Below is a reconciliation of free cash flow to the nearest IFRS measure, which is "Net cash from operating activities".

	€'m	€'m
Net cash from operating activities	683.0	721.3
Difference between movement in average working capital and movement in the financial year end working capital	76.0	(66.4)
Expenditure on acquisition integration and restructuring costs	21.2	26.4
Purchase of assets	(223.8)	(252.2)
Proceeds from the sale of property, plant and equipment	12.1	12.7
Capital grants received	1.5	10.1
Exchange translation adjustment	(0.1)	0.7
Free cash flow	569.9	452.6

## 11. FINANCIAL RATIOS

The Net debt: EBITDA and EBITDA: Net interest ratios disclosed are calculated in accordance with lender's facility agreements using an adjusted EBITDA, adjusted finance costs (net of finance income) and an adjusted net debt value to adjust for the impact of non-trading items, acquisitions net of disposals and deferred payments in relation to acquisitions. As outlined on page 154 these ratios are calculated in accordance with lender's facility agreements and these agreements specifically require these adjustments in the calculation.

#### 12. RETURN ON AVERAGE EQUITY (ROAE)

This measure is defined as profit after tax and attributable to owners of the parent before non-trading items (net of related tax) and brand related intangible asset amortisation expressed as a percentage of average equity. Average equity is calculated by taking the average shareholders' funds over a 12 month period plus an additional €528m relating to goodwill written off to reserves pre conversion to IFRS.

#### 13. RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)

This measure is defined as profit after tax and attributable to owners of the parent before non-trading items (net of related tax), brand related intangible asset amortisation and finance income and costs expressed as a percentage of average capital employed. Average Capital Employed is calculated by taking the average shareholder's funds and net debt over a 12 month period plus an additional €528m relating to goodwill written off to reserves pre conversion to IFRS.

# 14. CASH FLOW RETURN ON INVESTMENT (CFROI)

CFROI is calculated as free cash flow before finance costs (net) expressed as a percentage of average capital employed. Average capital employed for the CFROI calculation is the same as that used for ROACE.

#### 15. TOTAL SHAREHOLDER RETURN (TSR)

Total shareholder return (TSR) represents the change in the capital value of Kerry Group plc shares plus dividends reinvested in the year.

# 16. MARKET CAPITALISATION

Market Capitalisation is calculated as the share price times the number of shares issued.

#### 17. ENTERPRISE VALUE

Enterprise Value is calculated as per external market sources. It is market capitalisation plus reported borrowings less total cash and cash equivalents.

#### 18. CONSTANT CURRENCY

Constant currency reporting eliminates the translational effect of changes in foreign exchange rates on the Group's results. Constant currency year-on-year change is calculated by retranslating prior year results at current year average exchange rates and comparing the outcome to the current year reported number.

