Kerry Group plc

Interim Report & Accounts 2000

Kerry Group is a leader in global food ingredient markets and a leading consumer foods processing and marketing organisation in selected European markets.

Established as a public limited company in 1986, the Group has achieved sustained profitable growth and pursued a strategic global expansion programme which has led to the establishment of manufacturing, technical and marketing facilities in Ireland, the UK, France, Italy, Germany, the Netherlands, Poland, Hungary, the USA, Canada, Mexico, Brazil, Australia, New Zealand and Malaysia.

Kerry is committed to being a leader in its selected markets through technological creativity, total quality and superior customer service.

The Group is focused on continuing to expand its presence in global food ingredients markets and on the further development of its consumer foods businesses in Europe.

Financial Highlights

Sales increased by 10.3% to €1,264.8m.

Operating profit before goodwill amortisation increased by 14.4% to €101.3m.

Operating margin up from 7.7% to 8.0%.

Profit before taxation increased by 20.1% to €71.4m.

Earnings per share before goodwill amortisation increased by 17.4% to €35.1c.

FRS3 earnings per share increased by 45.5% to €30.7c.

Dividend per share increased by 15.0% to €2.92c.

Chairman's Statement

Results

The Board of Kerry is pleased to report a solid performance with good profit growth in all markets for the six months to 30 June 2000. Profit before tax increased by 20.1% to €71.4m. Earnings per share before goodwill amortisation increased by 17.4% to €35.1c. Basic FRS3 earnings per share increased by 45.5% to €30.7c.

Operating profits increased by 14.4% to €101.3m. Group turnover at €1,264.8m grew by 10.3% compared to the same trading period in 1999. Reflecting the strength of all core businesses, this represents a further enhancement in operating margins to 8% from the previous years level of 7.7%.

Operations Review

Ireland and Rest of Europe

Sales from the Group's Irish based operations grew by 5.7% from €277.9m to €293.8m. Operating profit increased by 11.4% to €18.2m. European operations increased turnover by 10.5% to €558.1m while operating profits grew by 7% from €35.5m to €38.0m.

In European ingredients markets continuing progress was recorded in the prepared foods sector and good growth was achieved through coatings applications in the fish and poultry sectors and clear coatings for potato products. Excellent results were also achieved through the development and launch of a range of organic ingredients to meet the requirements of major food processors and retailers in the UK market. The recently commissioned Olesnica facility in Poland for savoury flavourings and coating systems, and a technical development centre accommodating Kerry's range of core ingredients technologies, has advanced the Group's position in Eastern European markets, particularly in Poland, Hungary and Russia. The acquisition of SFI Europe ingredients particulates business with a facility based in Tilburg, the Netherlands, as part of the acquisition of Shade Foods in the period under review, also advanced the Group's position as a leading supplier to ice cream, bakery, dairy and nutraceutical markets in Europe.

Kerry's consumer foods business units in Ireland and the UK continued to outperform the market. The buoyant Irish economy and the growth in the number of dual income families has accelerated demand for snacking and convenient food offerings. A range of Italian ready meals were successfully launched under the Denny brand in Ireland and consumer response to the range of premium cooked meats introduced under the Denny Finest brand also proved very satisfactory.

Double digit growth in the UK ready meals sector continued and Kerry increased its market share. Consumer response to the relaunch of the Mattessons range of premium cooked meat products proved extremely favourable. On-going investment in NPD was manifested in the recent introduction of 'Wall's Instants' – ready cooked microwaveable sausage which has achieved a highly favourable response at trade level.

Americas

Kerry's American food ingredient business again performed well. Turnover grew by 14.4% to €348.7m and operating profits increased by 18.3% from €34.9m to €41.2m.

The sale of the DCA bakery mix business in the US and Canada was broadly offset by the first time contribution from the acquired Shade Foods particulates business. The SFI Group of speciality food ingredients businesses, comprising Shade Foods Inc in the USA and Speciality Food Ingredients (SFI) in Europe, were acquired since year end for a total consideration of US$80m. Shade has already exhibited strong growth, in particular with chocolate coatings and inclusions for the fast growing nutraceutical sector and with clusters for ready to eat cereals. In February the Group announced the sale of the DCA bakery mix business in the US and Canada to Pillsbury Bakeries & Foodservice for US$100m.

In the US strong growth continued through major national accounts driven by traditional cornerstone technologies, in particular through spray-dried cheese flavourings, liquid sauces and fillings. Local business in Canada also grew satisfactorily year on year. In Mexico good progress continued with the snack food sector growing strongly. Business development in South American markets has proceeded very satisfactorily since the commissioning of the Brazilian processing and technical facility in August 1999. Good results have been achieved through functional dairy ingredients in the ice cream and bakery sectors and with cheese systems to the prepared foods industry.

Asia Pacific

Growth and development in Asia Pacific markets continued as planned in the period under review with sales growing by 8.6% to €64.1m and operating profits increased from €1.8m to €3.9m.
In Australia and New Zealand the prepared foods segment continued to grow strongly providing good opportunity for the Group’s savoury flavourings and Mastertaste flavours. Good progress was also recorded through marinades, glazes and other coatings technologies and developments through ‘quick service restaurant’ chains continued apace. Speciality lipids technology introduced in late 1999 also achieved good results. The Kerry Pinnacle range of branded bakery ingredients was further rationalised and focused on growth and development through regional and national bakery chains and in-store bakeries in major supermarket outlets.

In Asia the Group continued to develop through application of coatings and functional savoury technologies. Markets for cheese and dairy flavourings showed promising growth which will be fully exploited when the additional manufacturing capacity at the Group’s Malaysian facility comes on stream in early 2001.

Development

In line with the Group’s growth and development plans in global ingredients markets and selected consumer foods niches, a number of major development projects were advanced during the period.
In the UK, a new global food ingredients technical centre developed at a cost of €10m was opened in Bristol. The Bristol Technical Centre will service Kerry’s customer base in European markets through the development of savoury flavourings, functional savoury ingredients and coating systems, complementing the Group’s regional technical centres throughout Europe.

Construction of a major new state-of-the-art coatings manufacturing facility in Calhoun, Georgia, USA has commenced. The project costing US$22m will be completed by mid year 2001 and will produce breaders, batters and marinades for seafood, poultry, vegetable and other processed food applications. The Georgia facility will become the fifth US coatings plant operated by Kerry, complementing existing facilities in Melrose Park, Illinois; Millstadt, Illinois; Evansville, Indiana and Ponchatoula, Louisiana.

Stage 2 of the major development plan for the Johor Bahru plant in Malaysia has progressed very satisfactorily. Costing US$12m, the project will be completed by year end and fully commissioned in early 2001 and will triple capacity at the facility for the production of speciality lipids and cheese and dairy flavourings.

Restructuring of manufacturing facilities in Australia, subsequent to the acquisition of Burns Philp was significantly advanced. The plan comprises development of two world class production facilities in Murrarie (Brisbane) and Altona (Victoria) and the closure of three existing facilities. The AUS$12m Murrarie development project, providing manufacturing and technical facilities for all Kerry’s core ingredients technologies in Australia is substantially complete and will be fully commissioned by October, making it one of the most advanced facilities of its kind. The Altona development project will be completed in 2001.

In consumer foods phase 2 of the development of the Shillelagh (Irl) pre-packed chilled snack products facility is near completion. The new

€15m facility which will be fully commissioned in October 2000, represents further investment by the Group in high growth segments of the convenience food sector and provides additional production capacity required to match the continued growth of the Denny brand in the Irish market.

Post Balance Sheet Events

Kerry has entered into an agreement, subject to contract and due diligence to acquire the ingredients particulates business of Harald-Indústria e Comércio de Alimentos Ltda located in Sao Paola, Brazil. A leading provider of speciality chocolate coatings, flavoured particulates and low water activity fillings to the premium ice cream, dairy and bakery sectors in Brazil, the business complements the Shade Foods and SFI Europe businesses acquired since year end 1999.

The Group also recently completed the acquisition of York UK based York Dragee which provides chocolate inclusions and coated particulates to the cereal, confectionery, bakery and ice cream sector in the UK and mainland Europe. York Dragee's unique technologies are focused on growth niches of the latter market segments, including 'healthy eating', novelty and snack lines.

The acquisitions of Shade, Harald and York in high growth ingredients sectors with strong established partnerships with multinational food processors, provides strong growth opportunities for Kerry to extend the unique flavoured textured particulates, high protein inclusions, speciality chocolate and compound coatings technologies to ready-to-eat-cereals, confectionery, dairy, ice cream, bakery and nutraceutical markets globally.

Finance

Interest charges for the period were similar to last year, with interest cover increasing to 5.9 times from the prior year level of 5.2 times. Working capital was €68.4m higher than at year end 1999. The disposal of the DCA bakery mix business in the USA and Canada and the purchase of Shade Foods Inc. in the USA and SFI Europe resulted in a net cash inflow of €32.6m. Notwithstanding Group acquisitions and the level of capital expenditure, net debt at the end of June 2000, incorporating an adverse translation adjustment of €16.4m, stood at €569.2m compared to the year end level of €544.5m.

The level of debt expressed as a percentage of market capitalisation amounts to 24% compared to 30% at 30 June 1999 and the ratio of debt to EBITDA was 2.1 times. The taxation charge on ordinary activities increased to €18.6m compared to the 1999 first half level of €14.4m, reflecting an increase in the Group's effective tax rate from 24.2% to 26.0%. The basic weighted average number of shares in issue for the period was 172,047,213 (June 1999; 172,047,213). The diluted weighted average number of shares in issue for the period was 173,290,602 (June 1999; 173,132,371).

Dividend

The Board has declared an interim dividend of €2.92c per share, an increase of 15% on the 1999 interim dividend of €2.54c per share. The interim dividend will be paid on 30 November 2000 to shareholders on the record date 3 November 2000.

Current Trading and Outlook

The Group is confident of a good result for the full year and is well positioned to capitalise on complementary acquisition opportunities which continue to arise in Kerry's core markets.

Michael Hanrahan
Chairman
29 August, 2000

Consolidated Profit and Loss Account

for the half year ended 30 June 2000

	Half year ended 30 June, 2000 Unaudited €'000	Half year ended 30 June, 1999 Unaudited €'000	Year ended 31 Dec., 1999 Audited €'000
Turnover			
Continuing operations	1,264,755	1,146,817	2,456,352
Operating profit - continuing operations			
Before goodwill amortisation and exceptional items	101,305	88,562	203,614
Goodwill amortisation	7,520	6,369	12,103
Exceptional restructuring costs	-	10,513	35,359
Operating profit	93,785	71,680	156,152
Profit on sale of business	193	-	-
Interest payable and similar charges	22,600	22,770	42,309
Profit before taxation	71,378	48,910	113,843
Taxation			
Ordinary activities	18,550	14,407	34,662
Exceptional items	-	(1,809)	3,703
	18,550	12,598	38,365
Profit after taxation and attributable to ordinary shareholders	52,828	36,312	75,478
Dividends	5,024	4,369	13,539
Retained profit for the period	47,804	31,943	61,939
Earnings per ordinary share (€cents) - Note 2			
- basic before goodwill amortisation and exceptional items	35.1	29.9	73.6
- basic after goodwill amortisation and exceptional items	30.7	21.1	43.9
- fully diluted after goodwill amortisation and exceptional items	30.5	21.0	43.6

Consolidated Balance Sheet

as at 30 June 2000

	30 June, 2000 Unaudited €'000	30 June, 1999 Unaudited €'000	31 Dec., 1999 Audited €'000
Fixed assets			
Tangible assets	641,004	572,473	607,347
Intangible assets	262,445	246,271	234,153
	903,449	818,744	841,500
Current assets			
Stocks	296,869	278,944	272,354
Debtors	369,756	366,584	332,976
Cash at bank and in hand	10,381	5,939	13,261
	677,006	651,467	618,591
Creditors: Amounts falling due within one year	(612,296)	(572,516)	(566,512)
Net current assets	64,710	78,951	52,079
Total assets less current liabilities	968,159	897,695	893,579
Creditors: Amounts falling due after more than one year	(494,107)	(574,075)	(521,060)
Provisions for liabilities and charges	(8,794)	(6,645)	(20,394)
	465,258	316,975	352,125
Capital and reserves			
Called-up equity share capital	21,506	21,846	21,846
Other reserve	340	-	-
Share premium account	190,694	190,694	190,694
Profit and loss account	229,137	81,996	114,712
	441,677	294,536	327,252
Deferred income	23,581	22,439	24,873
	465,258	316,975	352,125

Consolidated Cash Flow Statement

for the half year ended 30 June 2000

	Half year ended 30 June, 2000 Unaudited €'000	Half year ended 30 June, 1999 Unaudited €'000	Year ended 31 Dec., 1999 Audited €'000
Operating profit before goodwill amortisation and exceptional items	101,305	88,562	203,614
Depreciation (net)	32,665	28,937	55,078
Change in working capital	(68,423)	(29,466)	3,779
Exchange translation adjustment	(770)	(1,007)	(149)
Net cash flow from operating activities	64,777	87,026	262,322
Returns on investments and servicing of finance	(23,485)	(22,770)	(39,457)
Taxation	(21,778)	(8,924)	(28,137)
Capital expenditure			
Purchase of tangible fixed assets	(46,882)	(28,295)	(91,059)
Proceeds on the sale of fixed assets	756	596	7,986
Development grants received	-	79	3,701
Acquisitions and disposals			
Purchase of subsidiary undertakings	(72,337)	(5,258)	(5,712)
Proceeds on the sale of businesses	104,876	-	-
Deferred creditors paid	(2,407)	(4,280)	(4,562)
Exceptional restructuring costs	(2,674)	(6,863)	(19,692)
Consideration adjustment on previous acquisitions	-	-	12,101
Equity dividends paid	(9,170)	(7,646)	(12,015)
Cash (outflow)/inflow before use of liquid resources and financing	(8,324)	3,665	85,476
Financing			
Increase/(decrease) in debt due within one year	5,444	24,565	(35,756)
Decrease in debt due after one year	-	(35,025)	(49,193)
(Decrease)/increase in cash in the period	(2,880)	(6,795)	527

Reconciliation of Net Cash Flow to Movement in Net Debt

for the half year ended 30 June 2000

(Decrease)/increase in cash in the period	(2,880)	(6,795)	527
Cash flow from debt financing	(5,444)	10,460	84,949
Change in net debt resulting from cash flows	(8,324)	3,665	85,476
Exchange translation adjustment	(16,383)	(45,286)	(64,273)
Movement in net debt in the period	(24,707)	(41,621)	21,203
Net debt at beginning of period	(544,532)	(565,735)	(565,735)
Net debt at end of period	(569,239)	(607,356)	(544,532)

Statement of Total Recognised Gains and Losses

for the half year ended 30 June 2000

	Half year ended 30 June, 2000 Unaudited €'000	Half year ended 30 June, 1999 Unaudited €'000	Year ended 31 Dec., 1999 Audited €'000
Profit attributable to the Group	52,828	36,312	75,478
Exchange translation adjustment on foreign currency net investments	(8,510)	1,105	10,064
Total recognised gains and losses relating to the period	44,318	37,417	85,542

Reconciliation of Movements in Share Capital and Reserves

for the half year ended 30 June 2000

	Share Capital and Premium €'000	Capital Conversion Reserve Fund €'000	Profit & Loss Account €'000	Total €'000
At beginning of period	212,540	-	114,712	327,252
Retained profit	-	-	47,804	47,804
Renominalisation of share capital - Note 5	(340)	340	-	-
Goodwill written back on disposal	-	-	75,131	75,131
Exchange translation adjustment	-	-	(8,510)	(8,510)
At end of period	212,200	340	229,137	441,677

The Profit & Loss Account figures comprise the following:

	Intangible Assets Written Off €'000	Retained Profits €'000	Profit & Loss Account €'000
At beginning of period	(474,698)	589,410	114,712
Retained profit	(7,520)	55,324	47,804
Goodwill written back on disposal	75,131	-	75,131
Exchange translation adjustment	-	(8,510)	(8,510)
At end of period	(407,087)	636,224	229,137

Notes to the Interim Report

for the half year ended 30 June 2000

1. Analysis of results by region

	Half year ended 30 June, 2000 Unaudited		Half year ended 30 June, 1999 Unaudited		Year ended 31 Dec., 1999 Audited	
	Turnover	Operating profit	Turnover	Operating profit	Turnover	Operating profit
	€'000	€'000	€'000	€'000	€'000	€'000
By geographical market of origin:						
Ireland	293,846	18,249	277,897	16,386	613,671	34,506
Rest of Europe	558,148	37,971	505,004	35,475	1,092,613	85,836
Americas	348,688	41,230	304,919	34,862	615,025	76,305
Asia Pacific	64,073	3,855	58,997	1,839	135,043	6,967
	1,264,755	101,305	1,146,817	88,562	2,456,352	203,614
Goodwill amortised	-	(7,520)	-	(6,369)	-	(12,103)
Exceptional restructuring costs	-	-	-	(10,513)	-	(35,359)
	1,264,755	93,785	1,146,817	71,680	2,456,352	156,152
By destination:						
Ireland	209,610		186,971		394,344	
Rest of Europe	617,375		569,770		1,224,234	
Americas	357,613		316,976		675,255	
Asia Pacific	80,157		73,100		162,519	
	1,264,755		1,146,817		2,456,352	

2. Earnings per share

	Unaudited		Unaudited		Audited	
	EPS	June 2000	EPS	June 1999	EPS	Dec. 1999
	Cents	€'000	Cents	€'000	Cents	€'000
Profit after taxation, before goodwill amortisation and exceptional items	35.1	60,348	29.9	51,385	73.6	126,643
Goodwill amortisation	4.4	7,520	3.7	6,369	7.0	12,103
Exceptional items (net)	-	-	5.1	8,704	22.7	39,062
Profit after taxation, goodwill amortisation and exceptional items	30.7	52,828	21.1	36,312	43.9	75,478
Share option dilution	0.2	-	0.1	-	0.3	-
	30.5	52,828	21.0	36,312	43.6	75,478

The basic weighted average number of shares in issue for the period was 172,047,213 (June 1999: 172,047,213). The diluted weighted average number of ordinary shares in issue for the period was 173,290,602 (June 1999: 173,132,371). The dilution arises in respect of executive share options outstanding.

3. Accounting policies

These accounts have been prepared using the same accounting policies detailed in the 1999 annual financial statements except that the Group has implemented Financial Reporting Standard 16 "Current Tax" in the half year ended 30 June 2000. This does not have a material impact on either the measurement or the classification of the Group's assets and liabilities.

4. Profit on sale of business

The profit on sale of business arose on the disposal of the Group's DCA bakery business in the US and Canada to Pillsbury Bakeries and Foodservice, completed in February 2000 for US$100.7m (net of expenses).

5. Share capital

Due to the introduction of the euro each of the issued and unissued ordinary shares of IR£0.10 each was re-denominated into an ordinary share of €0.1269738 following a resolution passed at the date of the last AGM. Every such share was then renominalised to be an ordinary share of €0.125. An amount equal to the reduction in the issued share capital resulting from this renominalisation was transferred to a capital conversion reserve fund.

	Previous Par Value of Shares	Redenominated Par Value of Shares	Renominalised Par Value Of Shares	Aggregate Renominalisation Effect €'000
172,047,213 A ordinary shares	IR£0.10	€0.1269738	€0.125	340

6. These accounts are not full accounts and except where indicated are unaudited. Full accounts to 31 December, 1999, which received an unqualified audit report, have been filed with the Registrar of Companies.

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