Kerry Group

Interim Report & Accounts 2003

Our Mission

Kerry Group will be a major international specialist food ingredients corporation, a leading international flavour technology company and a leading supplier of added-value brands and customer branded foods to the Irish and UK markets.

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

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.

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Financial Highlights

Like-for-like sales growth of 5.9%.

Operating profit* increased by 4.1% to €133 million (a like-for-like increase of 9.3%).

Operating margin* increased from 7.1% to 7.4%.

Adjusted profit after tax* increased by 10.6% to €85.6 million.

Adjusted earnings per share* increased by 10.3% to 46.1 cent.

FRS 3 earnings per share increased by 65.3% to 33.4 cent.

Interim dividend per share increased by 11% to 4.05 cent.

* Before goodwill amortisation and exceptional items

Chairman's Statement

Results

The Board of Kerry is pleased to present interim results for the half year ended 30 June 2003. Against a background of significant currency movement in the Group's major markets, in the first half of 2003 Kerry again demonstrated the Group's inherent strengths by producing a strong operational performance and good financial results. Following two years of sustained business expansion and technical development through a programme of over twenty acquisitions, in the period under review the Group focused considerable attention on the enhancement of operational effectiveness and innovation to meet ever-changing consumer requirements, while continuing to seek out further growth opportunities. Satisfactory progress and good organic growth was achieved throughout the Group's ingredients, flavours and consumer foods markets. Notwithstanding the significant shift in dollar and sterling exchange rates versus the euro, total Group turnover reported was similar to the same period of last year at €1.8 billion. This reflects like-for-like sales growth of 5.9% compared with 5.0% in the first half of 2002. Through successful integration of acquired businesses and an on-going focus on manufacturing efficiencies, the Group operating margin increased to 7.4% in the first half of 2003 from 7.1% in the same period of 2002.

Operating profit before goodwill and exceptional items increased by 4.1% to €133.2m, reflecting a like-for-like increase of 9.3% versus the comparable period. Adjusted profit after tax increased by 10.6% to €85.6m. Equivalently, earnings per share increased by 10.3% to 46.1 cent. Basic FRS 3 earnings per share increased by 65.3% to 33.4 cent.

Operations Reviews

Ireland and Rest of Europe

Sales originating from Irish based operations again grew encouragingly to €655.6m, reflecting like-for-like sales growth of 8.9%. Operating profit increased from €26.9m to €31.6m.
Due to the relatively lower sterling to euro exchange rate, sales originating from the Group's European operations (excluding Ireland) were slightly lower at €621.4m. On a like-for-like basis European operations increased sales by 5.1% and operating profits grew to €47.2m, reflecting a like-for-like increase of 10.9%.

The values of Kerry Foods' branded portfolio and the benefits of the division's relentless focus on development of consumer-led innovative products were again demonstrated in the period. Assisted by its technical, marketing and distribution network, the division grew market share in all key categories organically and through successful new product developments in a highly competitive environment. In Ireland, major advances were achieved in the cheese snacking, sandwich, premium sliced meat and food-to-go sectors. Freshways, acquired in late

2002, made excellent progress in the foodservice, travel and retail sectors through its range of pre-packed sandwiches, breakfast baps, bagels and wraps.

The €14m project to expand its Dublin manufacturing facility will be completed and commissioned prior to year-end. In the cheese and cheese snacks sectors, progress through the Cheestrings, Charleville, Coleraine, EasiSingles and Cheestrings 'Attack-A-Snak' range – launched in late 2002, was most encouraging. Stage 1 of a €14m capital investment programme to quadruple production capacity across the Cheestrings range has commenced at the Charleville production plant.

In the Irish and UK poultry sectors, escalating costs and competitive pressures gave rise to difficult trading conditions in the period. Margin recovery was adversely impacted due to a time lag in securing necessary market price increases. In the UK market, Kerry Foods made further progress in the prepared meals sector and through the Walls', Richmond and Mattessons branded ranges. On-going investment to expand production capacity and product range in the ready meals sector is proceeding as planned. Excellent progress was again achieved through Kerry Foods Direct To Store in the UK convenience sector, including the addition of a number of new national accounts. However, the rationalisation and relocation of all pastry production to the Poole site (following the Pork Farms Bowyers transaction concluded in 2002) led to significant once-off costs, which impacted performance of the business during the period.

Performance across the Group's European ingredients businesses was well ahead of the prior half-year level. This reflects efficiencies accruing from the capital development programmes concluded in 2002 and on-going success in leveraging the range of Kerry technologies, culinary systems and ingredients range – particularly in fast growing sectors such as prepared meals. Building on the acquisitions of Voyager Foods (UK) and Aromont (France) the business focus is to continue to leverage synergies and business potential in the prepared foods and meat industries – particularly into Southern and Eastern European markets. The division's performance in European food coatings markets was significantly improved through benefits from supply chain improvement projects, increased production efficiencies and synergies across manufacturing facilities. The UK based EBI Foods business, acquired in late 2002, exceeded budgeted business targets for the period across added-value coatings markets in European, Middle Eastern and Far Eastern markets. While conditions in European coatings markets remain highly competitive, the division expects to realise recent cereal raw material cost increases through product price increases and further manufacturing synergies. In the European snack-seasoning sector, Kerry made further gains in line with market trends – in particular in Eastern European markets. In the specialist dairy ingredients, sweet and fruit ingredients sectors continued progress was achieved in nutritional, health, confectionery and indulgence product categories.

Following the launch in 2002 of Mastertaste, the Group's international flavour division, considerable progress has been achieved in establishing flavour development capabilities and business structures to support the division's strategic development and core supplier programmes. In Europe, the UK and Italian based businesses performed ahead of industry growth rates. The businesses are now focused on further development of sweet, savoury and beverage flavour applications and broadening the division's pan-European customer base.

Americas

The significant shift in the exchange rate of the U.S. dollar versus euro impacted translation of sales and profits in American markets. Sales in American markets of €453.5m in the period and operating profits of €48.9m reflect a 3% increase in sales and profits on a like-for-like basis. However, the heavy acquisition and business development programmes in American markets in recent years (with completion of 8 acquisitions in 2001, 9 acquisitions in 2002 and 3 acquisitions to-date in 2003) coupled with establishment costs of the Mastertaste flavour division and decentralisation costs associated with restructuring of the food ingredients Strategic Business Units in the USA meant that the reported operating margin in the period fell by 30 basis points relative to the first half of 2002 to 10.8%. Management are addressing improved business efficiencies in response to the rapid business development in the region and the requirement to match cost increases with appropriate market price increases in some sectors.

In the USA and Canadian markets, Kerry's seasonings and foodservice businesses performed well with sustained growth of meat seasonings applications and a broadening of the snack customer base. Again, performance in the fast growing beverages sector proved satisfactory with strong growth in coffeehouse chains. In the area of sweet ingredients the Group gained substantial new business through 'NSA' – no sugar added – applications and in the premium ice-cream sector. Cost increases in the speciality ingredients and coatings sectors were not matched in the marketplace. Recovery in both sectors is on-going which, with enhanced business efficiencies and restructuring of operations, is expected to deliver a satisfactory outcome by year-end. The increased focus on dietary and health concerns in the USA and Canadian market has provided a significant stimulus in terms of new product development. All Kerry businesses are well placed to deliver innovative ingredients and application specific solutions to meet such requirements and have a well-proven industry record of leading development in terms of health and nutritional concerns. The division's dedicated nutritional products business 'Nutriant' has benefited strongly from such trends through its high-protein soy isolates and organic systems. Synergies across the Group's specialist dairy proteins, flavours and other North American business units are focused on meeting the evolving dietary requirements and rapidly differentiating demographic trends.

Progress was again satisfactory in Mexico and Latin American markets, in particular through promising market development initiatives in the Andean region. Economic conditions in South American markets remain difficult, which has had a negative impact on new product rollout. While the dairy and ice-cream industries have struggled, nevertheless, Kerry has enjoyed success due to a momentum to more technological ingredients - in particular in the area of beverages. Progress was also again recorded through meat seasonings and through sweet ingredients for the cereal-bar market.

In American markets, a new Mastertaste business structure serving beverage, sweet and savoury flavour applications has been established. The flavour businesses acquired in 2001 and 2002 were successfully restructured in line with the new Mastertaste business structure and management are focused on exploiting the synergies of the combined businesses, while also exploring complementary acquisition opportunities.

Asia Pacific

Business development in the Group's Asia Pacific markets in the period was again very encouraging. Sales in the region at €71.6m reflect like-for-like sales growth of 7.4% compared to the first half of 2002. Operating profits grew to €5.4m, reflecting a like-for-like increase of 34.8%.

In Australia, progress continued through seasonings and marinades in the added-value poultry sector. Kerry Pinnacle had a strong performance – extending its "healthy" ranges of bakery mixes through retail chains. New Zealand again produced good growth through snack and meat seasonings.

In Asia, beverage applications grew satisfactorily in all markets. Nutritional products achieved solid growth in Malaysia, Thailand and China, whilst snack seasonings recorded strong growth in the Philippines and Malaysia. With the growth of the prepared foods, seafood and foodservice industries in Thailand, prospects are good for Kerry's seasonings and marinades manufacturing business acquired in late 2002.

Development

As previously announced, the Group completed three acquisitions in the USA at a total cost in the period of €125m – furthering its flavours, sweet ingredients and seasonings business development in North American markets.

(a) Ingredients Businesses

Guernsey Bel, a leading innovator and provider of value-added ingredients and inclusions technology for the premium ice-cream, breakfast cereal, bakery, nutritional bar, frozen dessert and confectionery industries – operating from two modern manufacturing facilities located in Chicago and in Hayward, California.

Pacific Seasonings, a leading manufacturer of seasonings and spices for the meat, prepared foods and snack food industries – operating from manufacturing facilities in Seattle (organic certified) and Detroit.

(b) Flavours

SunPure, a leading producer of primary citrus ingredients and flavour molecules – located at the centre of the North American citrus industry in Lakeland, Florida. The business, which is also a significant producer of apple essence and beverage flavours and bases, currently services the requirements of a large customer base in the USA and Japan – including leading flavour houses, branded beverage companies and private-label beverage producers. Mastertaste, in integrating the acquired business, will focus on the significant growth opportunities in wider flavour and beverage growth markets across Europe, Latin America and Asia, as well as its established market base.

Finance

Net cash flow from operating activities increased by €21.2m to €97.3m. Group borrowings amounted to €852.2m compared to €897.6m at the end of the first half of 2002. Debt to EBITDA fell to 2.2 times (H1 2002 : 2.5 times). Interest charges decreased by €4.4m to €22.3m, with EBITDA to interest covered 8.6 times (H1 2002 : 6.9 times).

During the period the Group also successfully concluded the placement of US$650 million Senior Notes with U.S. institutional investors, lengthening the Group's debt maturity profile. The average maturity of net debt is now 7.5 years.

The basic weighted average number of ordinary shares in issue for the period was 185,631,612 (half year ended 30 June 2002: 185,184,512; year-ended 31 December 2002: 185,363,778).

Dividend

The Board has declared an interim dividend of 4.05 cent per share, an increase of 11% on the 2002 interim dividend of 3.65 cent per share. The interim dividend will be paid on 28 November 2003 to shareholders on the record date 31 October 2003.

Board Changes

As previously announced, on 1 August 2003 Denis Brosnan retired as Chairman and Director of the Group and I was appointed non-executive Chairman of the Board.

As Chairman, I wish to thank Denis Brosnan for his enormous contribution to Kerry's success over the years in establishing a growth orientated, profitable international food organisation. The strategic development of Kerry Group, to a leading international food ingredients, flavours and consumer foods enterprise, is testament to Denis Brosnan's unwavering leadership and strategic vision.

On behalf of the Board I wish to pay tribute to Denis for his unrivalled contribution since the establishment of the Kerry Organisation. We wish Denis well in his retirement.

Current Trading and Outlook

The Group's first half results underline the capability of Kerry businesses to outperform industry growth rates, notwithstanding currency movements and sectoral issues in some geographic markets. Heightened awareness of health and dietary issues is providing a further stimulus for continued innovation in the food ingredients, flavours and consumer foods industry. Coupled with on-going requirements for convenience and ease-of-cooking, such trends will continue to present good growth opportunities for Kerry's business units.

The Group remains firmly focused on supply chain improvements and operational efficiencies. While we continue to seek acquisitions of size, the Group will continue to expand and broaden its technology and core business base in all territories through a busy pipeline of small to medium sized acquisition targets. Notwithstanding currency fluctuations, prospects for the full-year are good, with an expected out-turn in line with market forecasts.

Denis Buckley

Denis Buckley
Chairman
2 September, 2003

Consolidated Profit and Loss Account

for the half year ended 30 June 2003

	Notes	**Half year ended 30 June 2003 Unaudited €'000**	Half year ended 30 June 2002 Unaudited €'000	Year ended 31 Dec. 2002 Audited €'000
Turnover				
Continuing operations	1	**1,802,092**	1,799,838	3,754,808
Operating profit - continuing operations				
Before goodwill amortisation and exceptional items		**133,155**	127,963	305,410
Goodwill amortisation		**24,661**	20,202	41,401
Exceptional restructuring costs		**–**	25,524	56,602
Operating profit	1	**108,494**	82,237	207,407
Profit on sale of businesses		**–**	1,789	1,744
Profit / (loss) on sale of fixed assets		**1,017**	(31)	279
Interest payable and similar charges		**22,281**	26,652	50,238
Profit before taxation		**87,230**	57,343	159,192
Taxation - current tax		**20,063**	17,819	46,605
- deferred tax		**5,234**	2,206	8,684
Profit after taxation and attributable to ordinary shareholders		**61,933**	37,318	103,903
Dividends		**7,520**	6,802	21,377
Retained profit for the period		**54,413**	30,516	82,526
Earnings per ordinary share (cent)				
- basic before goodwill amortisation and exceptional items	2	**46.1**	41.8	101.8
- basic after goodwill amortisation and exceptional items	2	**33.4**	20.2	56.1
- fully diluted after goodwill amortisation and exceptional items	2	**33.3**	20.0	55.7

Consolidated Balance Sheet

as at 30 June 2003

	30 June 2003 Unaudited €'000	30 June 2002 Unaudited €'000	31 Dec. 2002 Audited €'000
Fixed assets			
Tangible assets	**843,264**	844,418	870,406
Intangible assets	**821,433**	690,074	765,384
	1,664,697	1,534,492	1,635,790
Current assets			
Stocks	**427,453**	406,769	363,545
Debtors	**550,994**	570,101	500,606
Cash at bank and in hand	**32,013**	30,521	46,584
	1,010,460	1,007,391	910,735
Creditors: Amounts falling due within one year	**(877,751)**	(883,191)	(821,823)
Net current assets	**132,709**	124,200	88,912
Total assets less current liabilities	**1,797,406**	1,658,692	1,724,702
Creditors: Amounts falling due after more than one year	**(858,223)**	(815,102)	(824,134)
Provisions for liabilities and charges	**(57,197)**	(46,562)	(64,571)
	881,986	797,028	835,997
Capital and reserves			
Called-up equity share capital	**23,211**	23,180	23,202
Capital conversion reserve fund	**340**	340	340
Share premium account	**363,574**	361,333	362,974
Profit and loss account	**465,266**	378,804	418,012
	852,391	763,657	804,528
Deferred income	**29,595**	33,371	31,469
	881,986	797,028	835,997

Consolidated Cash Flow Statement

for the half year ended 30 June 2003

	Half year ended 30 June 2003 Unaudited €'000	Half year ended 30 June 2002 Unaudited €'000	Year ended 31 Dec. 2002 Audited €'000
Operating profit before goodwill amortisation and exceptional items	**133,155**	127,963	305,410
Depreciation (net)	**43,174**	45,040	84,952
Change in working capital	**(79,160)**	(93,399)	48,786
Exchange translation adjustment	**84**	(3,538)	(2,691)
Net cash inflow from operating activities	**97,253**	76,066	436,457
Return on investments and servicing of finance	**(21,633)**	(25,438)	(49,832)
Taxation	**(13,549)**	(15,941)	(43,612)
Capital expenditure			
Purchase of fixed assets	**(38,670)**	(48,673)	(96,183)
Proceeds on the sale of fixed assets	**1,923**	69	3,584
Development grants received	**236**	264	398
Acquisitions and disposals			
Purchase of subsidiary undertakings	**(124,896)**	(124,985)	(237,539)
Proceeds on the sale of businesses	**–**	34,034	33,199
Deferred creditors paid	**(2,027)**	(2,754)	(8,883)
Exceptional restructuring costs	**(8,892)**	(13,591)	(33,717)
Consideration adjustment on previous acquisitions	**(97)**	–	(393)
Equity dividends paid	**(14,571)**	(12,513)	(19,293)
Cash outflow before the use of liquid resources and financing	**(124,923)**	(133,462)	(15,814)
Financing			
Issue of share capital	**609**	3,515	5,178
Increase in debt due within one year	**43,703**	112,025	81,677
Increase / (decrease) in debt due after one year	**66,040**	28,649	(44,251)
(Decrease) / increase in cash in the period	**(14,571)**	10,727	26,790

Reconciliation of Net Cash Flow to Movement in Net Debt

for the half year ended 30 June 2003

(Decrease) / increase in cash in the period	**(14,571)**	10,727	26,790
Cash flow from debt financing	**(109,743)**	(140,674)	(37,426)
Change in net debt resulting from cash flows	**(124,314)**	(129,947)	(10,636)
Exchange translation adjustment	**35,910**	51,275	65,756
Movement in net debt in the period	**(88,404)**	(78,672)	55,120
Net debt at beginning of period	**(763,804)**	(818,924)	(818,924)
Net debt at end of period	**(852,208)**	(897,596)	(763,804)

Statement of Total Recognised Gains and Losses

for the half year ended 30 June 2003

	Half year ended 30 June 2003 Unaudited €'000	Half year ended 30 June 2002 Unaudited €'000	Year ended 31 Dec. 2002 Audited €'000
Profit attributable to ordinary shareholders	**61,933**	37,318	103,903
Exchange translation adjustment on foreign currency net investments	**(7,159)**	(27,920)	(40,722)
Total recognised gains and losses relating to the period	**54,774**	9,398	63,181
Prior year adjustment - deferred tax	**–**	(36,063)	(36,063)
Total gains and losses recognised since last annual report	**54,774**	(26,665)	27,118

Reconciliation of Movements in Share Capital and Reserves

for the half year ended 30 June 2003

	Share Capital and Premium €'000	**Capital Conversion Reserve Fund €'000**	**Profit & Loss Account €'000**	**Total €'000**
At beginning of period	386,176	340	418,012	804,528
Retained profit	**–**	**–**	**54,413**	**54,413**
Share issue	**609**	**–**	**–**	**609**
Exchange translation adjustment	**–**	**–**	**(7,159)**	**(7,159)**
At end of period	**386,785**	**340**	**465,266**	**852,391**

The Profit & Loss Account figures comprise the following:

	Intangible Assets Written Off €'000	**Retained Profits €'000**	**Profit & Loss Account €'000**
At beginning of period	(479,699)	897,711	418,012
Retained profit	**(24,661)**	**79,074**	**54,413**
Exchange translation adjustment	**–**	**(7,159)**	**(7,159)**
At end of period	**(504,360)**	**969,626**	**465,266**

The exchange translation adjustment arises on the retranslation of the Group's opening net investment in its overseas subsidiaries.

1. Analysis of results by region

	Half year ended 30 June 2003 Unaudited		Half year ended 30 June 2002 Unaudited		Year ended 31 Dec. 2002 Audited	
	Turnover €'000	**Operating Profit €'000**	Turnover €'000	Operating Profit €'000	Turnover €'000	Operating Profit €'000
By geographical market of origin:						
Ireland	**655,641**	**31,640**	627,115	26,887	1,373,681	62,637
Rest of Europe	**621,373**	**47,225**	628,318	43,900	1,293,154	109,586
Americas	**453,499**	**48,904**	473,514	52,769	944,767	120,473
Asia Pacific	**71,579**	**5,386**	70,891	4,407	143,206	12,714
	1,802,092	**133,155**	1,799,838	127,963	3,754,808	305,410
Goodwill amortisation	**–**	**(24,661)**	–	(20,202)	–	(41,401)
Exceptional restructuring costs	**–**	**–**	–	(25,524)	–	(56,602)
	1,802,092	**108,494**	1,799,838	82,237	3,754,808	207,407

	Turnover €'000	Turnover €'000	Turnover €'000
By destination:			
Ireland	**351,298**	322,400	766,027
Rest of Europe	**862,449**	868,939	1,788,914
Americas	**487,501**	503,961	1,002,942
Asia Pacific	**100,844**	104,538	196,925
	1,802,092	1,799,838	3,754,808

Turnover and operating profit as presented above, are stated net of intra Group transactions.

2. Earnings per share

	Half year ended 30 June 2003 Unaudited		Half year ended 30 June 2002 Unaudited		Year ended 31 Dec. 2002 Audited	
	EPS cent	**€'000**	EPS cent	€'000	EPS cent	€'000
Adjusted earnings*	**46.1**	**85,577**	41.8	77,410	101.8	188,707
Goodwill amortisation	**13.3**	**24,661**	10.9	20,202	22.3	41,401
Exceptional items (net of tax)	**(0.6)**	**(1,017)**	10.7	19,890	23.4	43,403
Profit after taxation, goodwill amortisation and exceptional items	**33.4**	**61,933**	20.2	37,318	56.1	103,903
Share option dilution	**0.1**	**–**	0.2	–	0.4	–
	33.3	**61,933**	20.0	37,318	55.7	103,903

The basic weighted average number of ordinary shares in issue for the period was **185,631,612** (half year ended 30 June 2002: 185,184,512; year ended 31 December 2002: 185,363,778). The diluted weighted average number of ordinary shares in issue for the period was **186,224,863** (half year ended 30 June 2002: 186,439,440; year ended 31 December 2002: 186,389,840). The dilution arises in respect of executive share options outstanding.

In addition to the basic and diluted earnings per share, an earnings per share before goodwill amortisation and exceptional items calculation is also provided, as it more accurately reflects the Group's underlying trading performance.

*Adjusted earnings is calculated as profit after taxation, before goodwill amortisation and exceptional items. Adjusted earnings per share is the adjusted earnings divided by the weighted average number of ordinary shares.

3. Businesses acquired

The Group completed a number of acquisitions during the period at a total cost of €125m.

The acquisitions of **Guernsey Bel** and **Pacific Seasonings,** both based in the US, were completed in March 2003. Guernsey Bel operates from two modern manufacturing facilities located in Chicago and in Hayward, California and is a leading innovator and provider of value-added ingredients and inclusion technology for the premium ice-cream, breakfast cereal, nutritional bar and confectionery industries. Pacific Seasonings is a leading manufacturer of seasonings and spices for the meat, prepared foods and snack food industries and operates from two manufacturing facilities in Seattle and Detroit.

SunPure, a leading manufacturer of natural citrus flavours and ingredients, was acquired in February 2003. Located at the centre of the North American citrus industry in Lakeland, Florida, SunPure is also a significant producer of apple essence and beverage flavours and bases.

4. Accounting policies

These accounts have been prepared using the same accounting policies detailed in the 2002 annual financial statements.

5. Post balance sheet event

In July 2003 the Group completed the sale of its Bridgend Dairy business in Wales, which had been acquired as part of the Golden Vale acquisition.

6. Interim accounts

These accounts are not full accounts and except where indicated are unaudited. Full accounts to 31 December 2002, which received an unqualified audit report, have been filed with the Registrar of Companies.

Notes

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