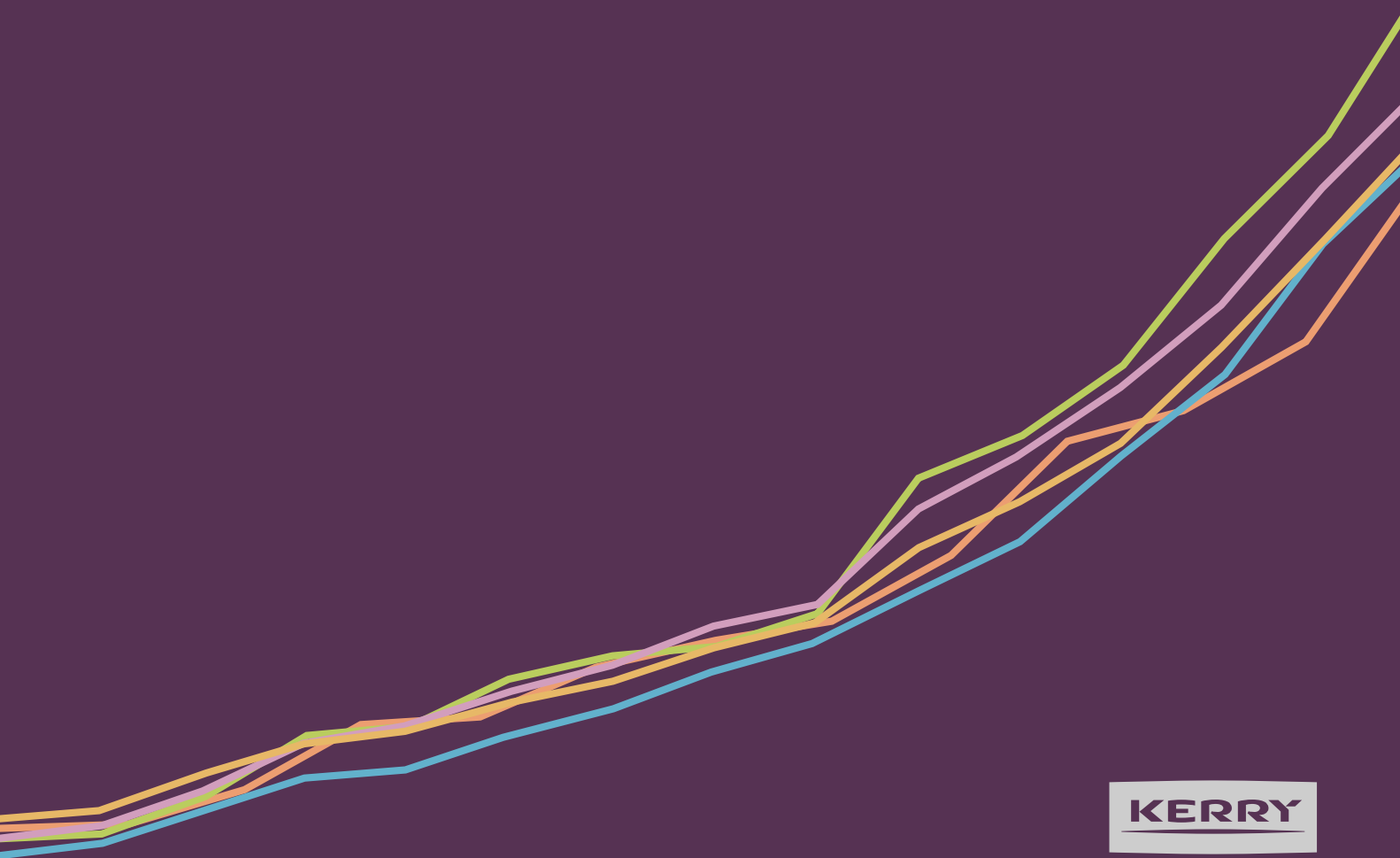


Kerry Group Annual Report & Accounts 2000
15 years of continuous growth

15



2000 at a Glance EBITDA increased by 14.5% to €296.2m. Sales increased by 6.7% to €2.6 billion. Operating margin up from 8.3% to 8.9%. Profit before tax of €173.2m, a 16.1% increase on the 1999 comparable. Adjusted earnings per share increased by 16.3% to €85.6c. Final dividend per share up 15% to €6.13c. Capital expenditure €101m. Expenditure on research and development increased to €52.4m.



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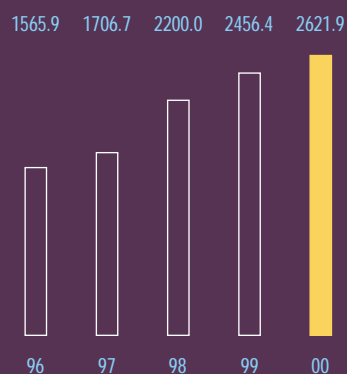
Kerry Group is a leader in global food ingredients markets and a leading consumer foods processing and marketing organisation in selected European markets.

Established as a public 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.

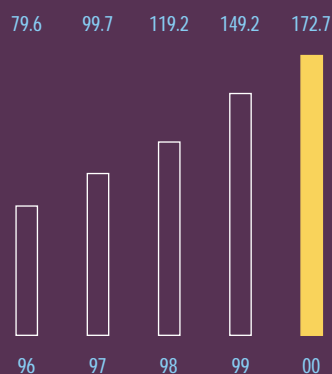
Kerry is committed to being a leader in its selected markets through technological creativity, total quality and superior customer service. The Group is focused on continuing to expand its presence in global food ingredients markets and on the further development of its consumer foods businesses in Europe.

Financial Highlights

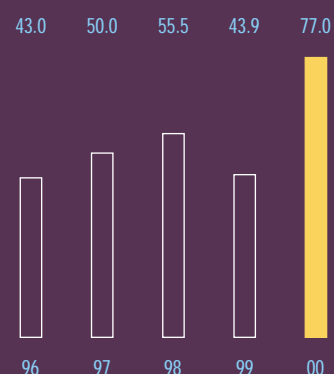
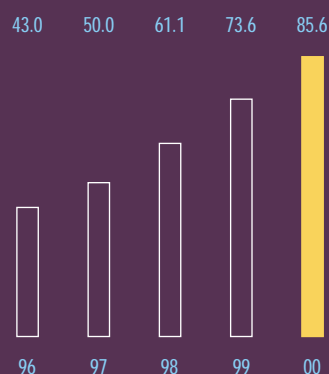
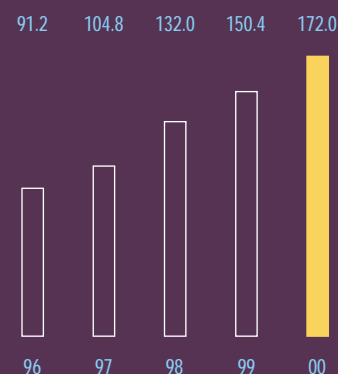
Group Turnover
(€million)



**Profit before Taxation and
Exceptional Items**
(€million)



Cash (EBITDA*) Per Share
(€cents)



**Earnings Per Share
Before Goodwill Amortisation
and Exceptional Items** (€cents)

**Earnings Per Share
After Goodwill Amortisation
and Exceptional Items** (€cents)

Results in brief

	2000	1999
	€m	€m
Turnover	2,621.9	2,456.4
EBITDA*	296.2	258.7
Profit before taxation and exceptional items	172.7	149.2
Dividends	15.6	13.5
Retained profit for the year	116.9	61.9
Purchase of fixed assets	101.0	92.4
Earnings per ordinary share (€cents)**	85.6	73.6
Total dividend per share (€cents)	9.05	7.87
Cash (EBITDA*) per share (€cents)	172.0	150.4

* Before exceptional items

** Before goodwill amortisation and exceptional items



Statement to Shareholders

In 2000, Kerry's fifteenth year as a public company, the Group maintained its record of sustained profitable growth and development. During a year characterised by major consolidation in global food markets, Kerry again achieved strong profit growth, assisted by its profit improvement programmes which advanced operating margins in all regional markets. Earnings before interest, tax, depreciation and amortisation (EBITDA) at €296.2m reflect an increase of 14.5% on the previous year. The Group's leadership position in global food ingredients markets and in snack and convenience sectors of chilled consumer foods markets in the UK and Ireland was further enhanced by a €52.4m expenditure on research and development. Future competitiveness and the Group's ability to capitalise on sectoral growth opportunities in European and North American markets and in emerging markets in South America and Asia, were considerably strengthened by a capital development programme at a cost of €101m.



Results

The Group achieved profit before tax of €173.2m, an increase of 16.1% on the comparable 1999 result. Adjusted earnings per share increased by 16.3% to €85.6c, a continuation of the Group's strong financial growth record which has produced compound growth in earnings per share of 18.9% per annum since Kerry Group plc was launched in 1986. Basic FRS3 earnings per share increased by 75.4% to €77.0c in 2000.

The Board has declared a final dividend of €6.13c, an increase of 15% on 1999. Together with the interim dividend of €2.92c per share, this raises the total dividend payment for the year to €9.05c, an increase of 15% on the 1999 dividend.

The Group's primary focus during the year under review was on its profit improvement programme. Satisfactory progress was achieved across all Group markets resulting in an increase in operating profit margin from 8.3% in 1999 to 8.9% in 2000. This was achieved through further development of value added product lines and application specific food ingredients, and also through progressive elimination of low margin activities. Total Group turnover increased by 6.7% from €2.46 billion in 1999 to €2.62 billion in 2000. Adjusted for acquisitions, divestitures, discontinued business and the effects of foreign currency movements, like for like sales grew by 3.2%. Operating profits increased to €233.7m, up 14.8% on the previous year.

Operations Reviews

Ireland and Rest of Europe

Sales originating from Irish based operations grew by 5.2% to €645.9m giving a satisfactory 8.1% increase in operating profit from €34.5m in 1999 to €37.3m.

Turnover in the Group's European operations (excluding Ireland) grew by 4.4% to €1,140.9m while operating profits increased by 7.1% to €91.9m.

In European ingredients markets, growth was driven by the continued movement towards out-of-home eating with

and to consolidate its position as the leading supplier of chilled foods to the independent and convenience sectors in both the UK and Ireland. Kerry again outperformed the overall market growth rate in the chilled convenience foods sector through its product development capability, targeted customer relationships and on-going investment in production capacity. Following a review of operations in the Irish liquid milk market, production was rationalised to three dairies in Killarney, Limerick and Galway, with the sale of the Cork based dairy and the phased closure of the Moate facility.



branded restaurants commanding an ever increasing share of the market. Growth in snacking and home meal replacement also continued whilst heightened consumer awareness of health and food safety issues continued to drive development in poultry based meals, organics and nutraceuticals. In addition Kerry Ingredients position in the European sweet flavourings sector was considerably strengthened in 2000. The acquisition of the SFI Europe particulates business as part of the Shade Foods acquisition with a production facility based in Tilburg, the Netherlands, strengthened the Group's position in the premium ice cream, confectionery, cereal, bakery, dairy and nutritional sectors. This was further boosted in August through the acquisition of UK based, York Dragee.

In consumer foods markets, Kerry Foods continued to build its added value food sales through leading multiple retailers

Denny, which is the biggest retail chilled food brand in Ireland, successfully launched a range of chilled ready meals and consolidated its leading position in meat and savoury products. Other innovative product launches during 2000 included H2Sport isotonic mineral water from Kerry Spring and Wall's Instants microwaveable sausage and bacon products in the UK.

Americas

In American food ingredients markets Kerry again performed well ahead of the industry average. Sales increased from €615.0m in 1999 to €703.9m in 2000 and operating profits increased by 21.1% from €76.3m to €92.4m. During the period, the Group acquired the SFI Group of speciality food ingredients businesses, comprising Shade Foods Inc in the USA and SFI Europe for a total

Statement to Shareholders

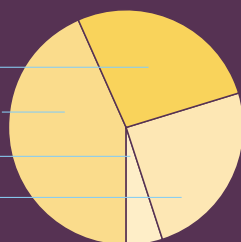
consideration of US\$80m. Since acquisition, Shade Foods has performed very satisfactorily in the fast growing nutraceutical and ready-to-eat cereal sectors and has positioned Kerry as the leader in flavoured particulates, inclusions and compound coatings. Solnuts, also part of this acquisition, provides a unique product line of value added soy-based nutritional ingredients, ideally suited to the rapidly expanding nutritional energy bar market. In February 2000, the Group concluded the sale of the DCA bakery mix business in the US and Canada for US\$100m. The contribution of Shade Foods was broadly offset by the

expanding activities through multinational accounts in Central American markets, particularly in the snack sector. In Mexico, sales to quick-service restaurants continued to expand and Kerry also achieved strong growth in the supermarket in-store bakery sector.

In Brazil, the Três Corações facility completed its first full year's production. Good growth was achieved in cheese and dairy flavourings where Kerry's locally based manufacturing and technical facilities represent a strong competitive advantage. Coatings and meat seasonings technologies to the growing value added poultry sector also delivered good

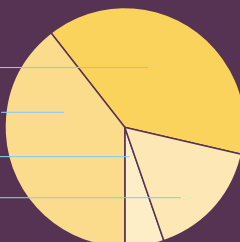
Turnover
(Total €2.6 billion)

Americas 26.9%
Rest of Europe 43.5%
Asia Pacific 5.0%
Ireland 24.6%



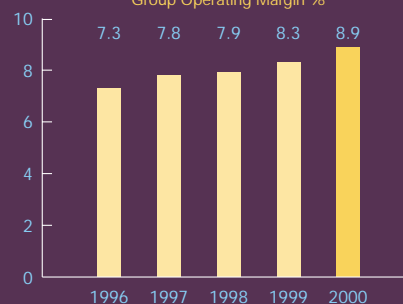
Operating Profit*
(Total €233.7 million)

Americas 39.5%
Rest of Europe 39.3%
Asia Pacific 5.2%
Ireland 16.0%



* Before goodwill amortisation and exceptionals

Group Operating Margin %



sale of the DCA business in the US and Canada. Prior to year-end the Group also concluded the acquisition of US based Armour Food Ingredients (AFI) for a total consideration of US\$35m. With annualised sales of approximately US\$40m the AFI business provides a range of speciality food ingredients including savoury flavourings, cheese and dairy flavourings and speciality lipids to the US food industry, strengthening Kerry's leadership positions in the snack and convenience sectors of the US market. The AFI acquisition did not materially impact on year 2000 performance. In the US, Kerry continued to advance its position in foodservice markets and also made excellent progress in the food processing markets of value added poultry, seafood and appetisers through coatings technologies.

In Canada, growth continued in Kerry's core market segments of snack seasonings, dried soups and sauces. From the Group's base in Mexico, good results were achieved in

results, as did speciality lipid and functional dairy technologies in the beverage and bakery sectors. The acquisition of Harald Industria e Comercio de Alimentos LTDA was not concluded.

Asia Pacific

Rationalisation of Kerry's bakery ingredients services in Australia and production capacity limitations at the Group's facility in Malaysia meant that turnover in the region was marginally lower at €131.2m compared to €135.0m in 1999. However very satisfactory progress was made with operating profits increasing by 73.9% to €12.1m. In Australia, excellent results were again achieved in the added value poultry sector through Kerry's unrivalled range of marinades, glazes, coatings and stuffings. Home meal replacement continued to grow. The continued development of the quick-service restaurant sector in

Australia and New Zealand provided further opportunities for Kerry's core technologies. In the bakery sector, Kerry Pinnacle rationalised its distribution services to focus on growth sectors through national and regional bakery chains and supermarket in-store bakeries.

In New Zealand, Kerry achieved double-digit growth in 2000, consolidating its position as the country's leading ingredients company.

The Group continued to expand and develop its presence in South East Asian and North East Asian markets in 2000.

- an AUS\$20m programme to establish two large ingredient production facilities in Queensland and Victoria, Australia. The Murarrie development in Queensland was completed by year-end and the Altona project in Victoria will be completed by mid-year 2001. Work has also commenced on a new Corporate Headquarters and Research and Development facility in Sydney.
- a US\$12m expansion of the Johor Bahru facility in Malaysia to increase production capacity was well advanced by year end. The new plant will be fully commissioned by end of March 2001 thereby providing



Further technical and sales resources were established in Thailand, Philippines, Indonesia and China. Strong demand continued for speciality lipid systems, primarily to the beverage sector and for cheese powders to the snack and biscuit sectors.

Development

In 2000, a number of strategic development projects were undertaken to advance the Group's position in global ingredients markets and in chilled consumer foods growth sectors, bringing capital expenditure to a record level of €101.0m (1999: €92.4m).

Principal projects included;

- greenfield development of a food coatings manufacturing facility in Calhoun, Georgia, USA, to be completed in 2001, for production of breaders, batters and marinades for poultry, seafood, vegetable and other processed food applications.

production capacity to meet market requirements in the region.

- in the UK, a global food ingredients technical centre in Bristol was completed.
- a €15m programme to expand production of the Denny range of chilled snack products at the Shillelagh plant in Ireland was also completed.

Expenditure on research and development increased to €52.4m (1999: €44.3m).

Finance

Net cash flow from operating activities increased to €309.0m from the 1999 level of €262.3m. Despite the expansion in Group operational activity, working capital fell year on year. Interest charges in 2000 increased to €45.7m compared to the previous year's level of €42.3m, with EBITDA to interest growing to 6.5 times (1999: 6.1 times).

Statement to Shareholders

The cash cost of businesses acquired amounted to €117.5m and disposals contributed €97.7m. The taxation charge on ordinary activities increased to €40.6m (1999: €34.7m) reflecting a slight increase in the Group's effective tax rate from 23.2% to 23.5%.

Notwithstanding the largest ever annual capital expenditure, net debt at year-end stood at €478.3m, compared to the 1999 year-end level of €544.5m. Before currency adjustment, this represents a reduction of €85.8m in Group borrowings in 2000. Debt to EBITDA was reduced to 1.6 times from the prior year-end level of 2.1 times. The level of debt expressed as a percentage of market capitalisation decreased from 27% to 20%.

At year-end the Kerry Group share was quoted at €13.60 (1999: €11.90) and market capitalisation amounted to €2.34 billion compared with the prior year-end level of €2.0 billion. The number of shares in issue at year-end was 172,425,213 (1999: 172,047,213).

Post Balance Sheet Events

The Group recently concluded the acquisition of Creative Seasonings & Spices Inc. based in Sturtevant, Wisconsin, USA. Founded in 1993, the acquired business has a proven growth record in development and application of flavour systems for the prepared foods, processed meats, snack and dairy industries in the US.

Euro

The Group is well advanced in preparing for the advent of the Euro. A comprehensive commercial and administrative programme, including modifications to information technology systems, will be concluded by summer 2001. Future costs associated with the transition are not expected to be material.

Board and Management Changes

Your Board has asked Mr. Michael Hanrahan to continue as a Director and Chairman until 31 December 2001 and has decided to appoint Mr. Denis Brosnan to the office of Chairman with effect from 1 January 2002. It has further decided to appoint Mr. Hugh Friel to succeed Mr. Brosnan as Managing Director of the Group with effect from 1 January 2002. Mr. Hugh Friel has been joint Deputy Managing Director of the Company since the formation of Kerry Group. He has been with Kerry since its foundation in 1972, overseeing its growth as Director of Finance.

We would like to thank Mr. Diarmuid O'Connell and Mr. Daniel T. O'Sullivan who retired from the Board in 2000 for their contribution to the Kerry organisation.

We are pleased to welcome Mr. Roger O' Rahilly and Mr. James V. Brosnan who joined the Board as non-executive Directors on 26 February 2001.

Future Prospects

We are optimistic that the ongoing consolidation of the global food industry will enhance Kerry's opportunities for growth and development. The Group's management, financial and operational resources are well positioned to deliver our targets for future profitable growth.

To our fellow Directors, all our employees, suppliers and customers we extend our thanks for your sustained commitment towards the continued successful growth and development of the Group.



Michael Hanrahan, Chairman



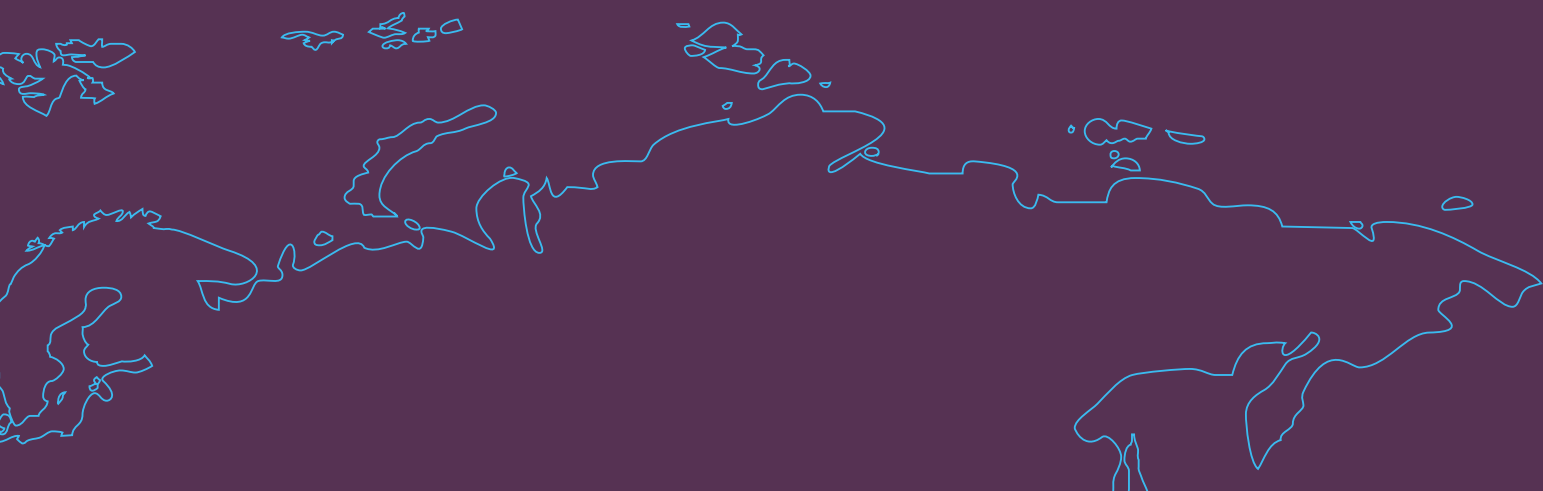
Denis Brosnan, Managing Director

26 February 2001



Business Review





In 2000, Kerry again advanced its position in global food ingredients markets and in snack and convenience sectors of the chilled consumer foods markets in the UK and Ireland. Group sales increased by 6.7% to €2.62 billion (1999: €2.46 billion), with a major focus on added value business development contributing to a further increase in operating profit margin from 8.3% in 1999 to 8.9% in 2000.

Business Review Ireland and Rest of Europe



The Group's Irish based operations performed well, growing sales by 5.2% to €645.9m and operating profits by 8.1% to €37.3m.

Rest of Europe operations grew turnover by 4.4% to €1,140.9m and increased operating profits by 7.1% to €91.9m.



Against a background of consolidation at food processor level, Kerry's European ingredients operations performed well, benefiting from the previous year's restructuring programmes following the acquisition of the Dalgety ingredients business. The division has responded well to European consumer demand for convenient meal solutions and to the expansion in out-of-home eating which has continued to drive product development in food processor and foodservice markets. Flavour profiles of major food items continue to broaden to include a wider range of

was opened in Bristol (UK) to spearhead development of savoury flavourings, functional savoury ingredients and coating systems, complementing the Group's regional technical centres throughout Europe. Prior to year-end a new administrative headquarters and technical centre in Germany was completed at the Rodgau facility, to support and strengthen Kerry's position within the Northern European food processing sector. In Eastern European markets further progress was achieved through the Group's expanded facilities in Hungary and in Poland. Dedicated



Ireland	2000	1999	1998
Sales	€645.9m	€613.7m	€587.0m
Operating Profit	€37.3m	€34.5m	€32.3m
Rest of Europe	2000	1999	1998
Sales	€1,140.9m	€1,092.6m	€965.9m
Operating Profit	€91.9m	€85.8m	€72.1m

ethnic flavours and fusion flavours, as mainstream tastes continue to diversify. In 2000, heightened consumer awareness of health and food safety issues continued to drive development in fish and poultry based meals, organics and nutraceuticals.

To fully exploit all Kerry core technologies in each market sector served in Europe, a new commercial and operations management structure was successfully established to meet Group growth targets and the needs of customers. Strong development was achieved in the rapidly expanding prepared foods sector and satisfactory growth continued in coatings applications in the fish and poultry sectors. Foodservice continued to expand, particularly in France where Kerry's product offering was expanded through the development of high quality bouillon, marinade and dessert applications. In May 2000, a €10m global technical centre

resources were also put in place to capitalise on growth opportunities in CIS.

During 2000, Kerry developed and successfully launched a range of speciality 'Indian Coaters' which have generated wide interest due to the growing demand for authentic regional flavours. Combined initiatives through the Bristol and Listowel technical centres also led to the development of a unique range of 'Sauce Pockets' for use as a crumbed or diced particulate, adding taste, flavour and colour in any comminuted meat, fish or vegetable product application.

Work also continued within the Listowel business development group in application of cheese and dairy flavourings, and functional cheese systems for ready meals, snack foods and cheese based finger food products for quick service restaurant menu items. Progress was also achieved in the development of functional dairy proteins for the fast

Business Review Ireland and Rest of Europe

growing nutritional bar sector and the high protein adult beverage and nutrition markets.

A major focus during 2000 was to expand Kerry's presence in the European sweet flavourings sector. The acquisition of the SFI Europe particulates business, which formed part of the Group's Shade Foods acquisition, with a production facility based in Tilburg, the Netherlands, added to Kerry's product offering and technical capability in the premium ice cream, confectionery, cereal, bakery, dairy and nutritional sectors. In August, UK based, York Dragee was

Aptunion foodservice operations, which provides dessert sauces, jams and fruit fillings, performed well particularly through its 'ready-to-use' product ranges. A number of new packaging formats were introduced, strengthening Ravifruit's position as brand leader in the patisserie and restaurant sectors.

In European consumer foods markets, Kerry Foods continued to grow its business with leading multiple retailers in both the UK and Ireland and also consolidated its position as the leading supplier of chilled foods to the independent and convenience sectors. During 2000, while



also acquired further boosting Kerry's presence in this fast growing sector.

Kerry Aptunion fruit division, which supplies fruit preparations and fruit flavours to the European bakery, ice cream, yoghurt and foodservice markets had a satisfactory year. Continued development of Kerry's high identity fruits and quality sterile preparations brought further success in premium and luxury market sectors. Handheld snacks and demand for product variety provided the greatest opportunity for growth in the European bakery sector. Kerry achieved good results in this sector from its recently commissioned UK based fruit fillings production facilities which enable manufacture of low water activity, bake stable fillings. While UK and mainland European foodservice markets experienced a year of unprecedented consolidation between wholesale distributors and contract caterers, Kerry

markets remained very competitive in a near-zero food price inflationary environment, chilled convenience foods markets again continued to show satisfactory growth.

Kerry's brands continued to grow sales and market share through innovation and strong consumer communications. In the UK savoury products sector, Richmond consolidated its position as the leading brand in the sausage sector and the Wall's brand performed exceptionally well. National TV campaigns on both sausage and bacon products during the year proved highly successful in driving high levels of spontaneous brand awareness, a major asset in delivering future growth. The strength of the Wall's brand was further reinforced by the launch of 'Wall's Instants', a unique innovation in the sausage category.

Tasting equally as good as a grilled or fried sausage, Wall's Instants are microwaveable in under one minute. Coupled with the continued success of Wall's Chef's selection in the

*Above: Kerry Ingredients Europe Executives continued (left to right)
Eamonn Burke, John Buckley, Philippe Merlin,
Elena Abbo, Paul Potter and Neil Saxon.*

Below: Kerry Foods Executives
(left to right) Michael Griffin, Chief Executive (centre) with,
Flor Healy, Michael Bassett, John Kilgannon and Paul Llewellyn.

parchment sector, such innovation and on-going investment in production facilities, assures Kerry's continued leadership in this sector.

The relaunch of the Mattessons brand, with a new positioning and a redesign, was very well received and new listings in all of the major UK multiples were achieved on the cooked sliced meat range. With the addition of rights to the Simpson's license, the launch of 'Simpsons Hot Dogs' achieved considerable success. The Simpsons license was also successfully extended to the buoyant branded ready

meals sector with listings for 'Homer's Hot Curry Banquet' and 'Homer's Chilli Mega Meal' in all major multiples.

In the home baking sector, Kerry's leading brands again performed well. Homepride flour continues to hold a strong number two national brand position in the UK market and the Green's cake mixes range again achieved good growth.

The UK chilled ready meals market grew by 22% year-on-year, to a retail market value now in excess of Stg£1 billion.

Kerry Foods again outperformed market growth rates in this dynamic sector in 2000 due to its continuous investment in



Business Review Ireland and Rest of Europe

product development capability, ensuring it remains at the forefront of category growth in terms of product innovation, packaging and process technology. Kerry also introduced a new concept of snacking in the sector through the launch of a 'Carton' range of products.

Kerry maintained its leadership position in the UK speciality poultry sector and in ready-to-cook portions. As consumers continue to demand more value added 'meal solutions' in favour of traditional primal meats, the ready-to-cook portions market experienced a 28% growth rate

Kerry's brands in the Irish market also performed well. The Denny brand again grew market share, well ahead of its nearest competitor, in the Irish sausage market. While in overall growth terms the market remains relatively static, however key consumer indicators remain strong suggesting that sausage retains its appeal despite strong competition from other food types. Denny also attained brand leadership in the back rasher segment of the Irish market during 2000. The launch of Denny 'Butcher Style Rashers' in convenient peel 'n' seal packaging contributed to brand performance in this key sector. Denny continues to lead innovation and



year-on-year. Production capacity was again expanded at the Attleborough facility and continued investment in product development resources again consolidated Kerry Foods position as category leader in the sector.

Despite significant operational cost increases, Kerry Foods Direct Sales, the largest distributor of chilled snacks to independent retail and convenience stores in the UK, again achieved a strong trading performance. 'Millers', Direct Sales core brand again grew satisfactorily and Millers sandwich sales recorded excellent growth, extending its brand leadership status in the sector. Market share in the convenience store sector for pastry and sausage was bolstered by the addition of two major convenience store multiple accounts. Mid-year, Kerry Wholesale Service was also launched offering a complete chilled food service, including third party branded products, on a pre-ordered basis to convenience stores.

market growth in the pre-packed sliced cooked meats category. The success of Denny Deli-Style Slices and Denny Finest Ham in the premium sector, assisted by strong advertising support, has contributed substantially to the growth in market share.

The year 2000 also saw the highly successful launch of Denny Italian Ready Meals on the Irish market. The Denny Lasagne, Spaghetti Bolognese and Tagliatelle Carbonara ready meals have performed very satisfactorily, particularly through major multiple retail channels since launch and Kerry's strong national distribution network will ensure growth through all key target market sectors in the year ahead. The Denny range of savoury products also achieved good growth, particularly through single serve offerings which have been repackaged to maximise on-shelf visibility.

In the white meat sector the Ballyfree brand achieved further market share and volume growth. Increased

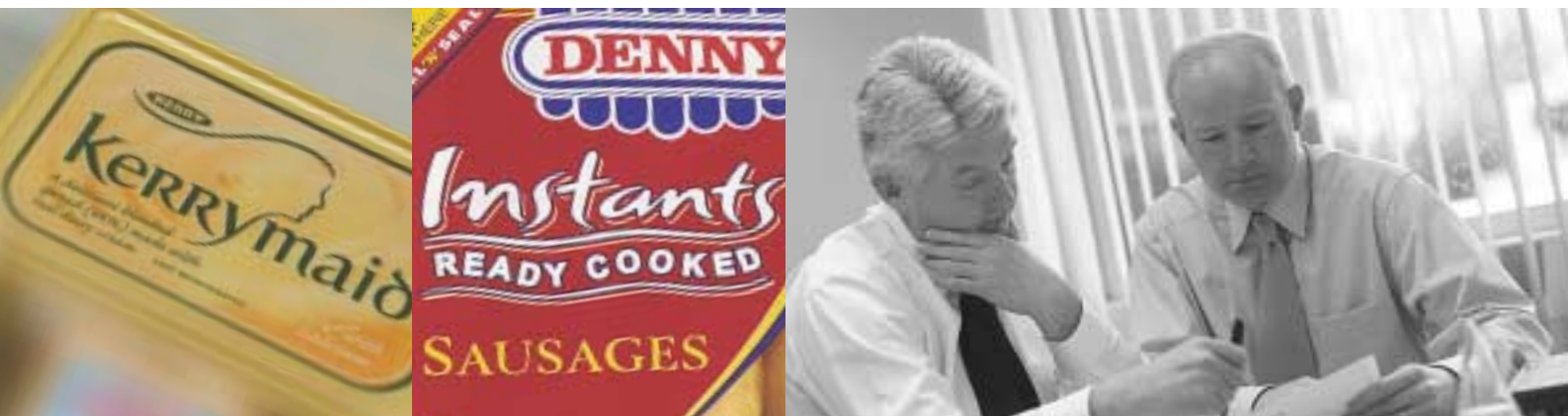
Above: Kerry Foods Executives continued (left to right)
Ian Ireland, Philip O'Connor, Fliss Cox,
Michael Looney and John Toomey.

promotional activity in terms of advertising, in-store demonstrations and targeted sponsorships assisted growth and brand awareness.

Following a review of Group operations in the Irish liquid milk market, Dawn Dairies business was rationalised to three production facilities in Killarney, Limerick and Galway, with the sale of the Cork based dairy and the phased closure of the Moate plant. Kerry's spreads brands again performed well in a competitive Irish marketplace, increasing the company's overall share of the sector. Low-Low maintained its significant leadership within low fat spreads, displaying the

children's juice drink, achieved the strongest market growth. The range was extended in August to include Apple & Blackcurrant and Dawn Smooth 'n' Juicy now holds a 10% share of the new chilled juice drinks category.

Kerry Spring again capitalised on the continued expansion of the Irish mineral water market through strong growth in its still and impulse offerings, in addition to its continued leadership of the flavoured category. Summer 2000 saw the brand enter the buoyant sports and energy drinks market in Ireland, currently valued at IR£100m per annum, with the launch of Kerry Spring H2Sport. H2Sport combines the



highest brand loyalty scores within the total spreads market. Relaunched with calcium fortification and new packaging, and benefiting from increased advertising investment, Kerrymaid performed ahead of the competition in its sector. Move over Butter achieved volume growth of 11% year-on-year, consolidating its market leadership position in the 'buttery' spreads sector. In the UK market, the consistent growth record of Kerry's customer branded spreads was maintained, strengthening the Group's position as lead supplier of premium private label products to major multiples.

The year 2000 also proved highly successful for the Dawn Juice range of products. Growth in Dawn's standard chilled juice range was fuelled by a strong performance in flavour variants, in addition to growth of the brand's 250ml orange impulse offering. Dawn Smooth 'n' Juicy, a chilled juice and dairy combination launched in late 1999 as a healthier

natural refreshment attributes of mineral water with isotonic energy releasing properties. The brand will benefit from major advertising, sampling and distribution initiatives in 2001, to ensure that this highly innovative product captures a significant share of the dynamic sports energy category.

Business Review Americas



Kerry's American food ingredient businesses continued to make good progress, outperforming the industry in a year of unprecedented consolidation. Sales increased by 14.4% to €703.9m and operating profits increased by 21.1% from €76.3m to €92.4m.



In both the US and Canada, ingredients sales to major retail branded food manufacturers grew satisfactorily, assisted by innovative developments in Kerry's core technologies. Product launches, including the patented 'Krispy Croc' agglomerated particulates and 'Prime Cut' meat analogue, proved highly successful. Prime Cut provides mouthfeel and strong visual impact in a variety of whole-muscle meats and seafood applications. Krispy Crocs is a unique dual textured and flavoured particulate which adds variety and interest to snack mixes and cereals.

partnership with leading processors to meet the unique product development and technological requirements of this sector. Kerry's coatings, seasonings, marinades, rubs and cheese flavourings were successfully applied in some of the year's high profile menu introductions. Encouraging results were also achieved through labour-saving food preparation technologies which also meet consumer demand for heightened flavour profiles.

Kerry's Golden Dipt Foodservice division, which markets branded coatings, sauces and bakery ingredients to



	2000	1999	1998
Sales	€703.9m	€615.0m	€579.7m
Operating Profit	€92.4m	€76.3m	€66.7m

Good growth continued in food processing markets. Kerry's reputation as a premier coatings supplier was leveraged to increase sales of cheese flavourings, sauces, marinades, rubs and glazes for application in value-added poultry, seafood and appetisers. Development in this market segment was supported by a 'Marinade of the Month' programme, a proactive direct marketing campaign designed to provide new product ideas to target customers while showcasing Kerry's unrivalled technology portfolio in the sector.

The year 2000 was a watershed in the US food industry as, for the first time, 50 per cent of the estimated US\$826 billion consumer expenditure on food was through foodservice outlets. Kerry's two-pronged approach to this rapidly expanding industry again recorded excellent growth and development. In the major quick-service-restaurant chains and casual dining segments Kerry works in

foodservice distributors, independent operators and foodservice restaurant chains, also reported good progress. A major initiative, designed to make menu development, product selection and the purchasing process easier for the customer, while providing efficiency gains to Kerry, was initiated during 2000. Golden Dipt also enjoyed considerable success through its 'Sharables' appetiser concept, generating demand for Kerry's patented adhesive batter systems.

Business Review Americas

In Canada Kerry continued to build its position in its core market segments of snack seasonings, dry soups and sauces. Progress was recorded in the incorporation of dairy flavours and emulsifier systems for vegetarian and soy-based cheeses.

In 2000, Kerry acquired the SFI Group of speciality ingredients businesses, comprising New Century, Kansas based Shade Foods Inc. in the USA and SFI in Europe, for a total consideration of US\$80m. Now fully integrated into Kerry Ingredients with the establishment of Kerry's 'sweet flavourings' core technology, the business has performed

Combined with Kerry's existing businesses in the speciality sector, this acquisition further strengthens Kerry's leadership position in cheese and dairy flavourings, savoury flavourings and speciality lipids in the US food industry. The Group also commenced development of a US\$20m greenfield investment in a major new food coatings production facility in Calhoun, Georgia, to support Kerry's continued growth in this core technology sector.

Kerry concluded the sale of the DCA bakery mix business in the US and Canada for US\$100m in February 2000.



well since acquisition and has positioned Kerry as leader in flavoured particulates, inclusions and compound coatings. The fast growing Solnuts, also part of the Shade acquisition, provides a unique product line of value-added soy-based nutritional ingredients.

Prior to year-end the Group also concluded the US\$35m acquisition of US based Armour Food Ingredients.

Since year-end the Group has acquired Creative Seasonings & Spices Inc. based in Sturtevant Wisconsin. This acquisition represents a further strengthening of Kerry's capability in development of seasoning blends and flavour systems for application in the prepared foods, processed meats, snack and dairy sectors.

Below:

Kerry Ingredients North America Executives *continued*
(left to right) Bob Blefko, Gerry Behan, Randy McIntyre,
Andy Royston, Jeff Miyake and Eoin O'Connell.

Across:

James O'Brien and Michael J. Kearney, Kerry Ingredients (Global).



Business Review Americas

In Mexico, Central America and the Caribbean, Kerry now holds a strong position as a leading ingredients supplier and has continued to expand its range of technologies to major multinational customers in the region. Quick-service-restaurants continue to grow strongly in this rapidly changing marketplace with a population base of over 200 million people. Supermarket in-store bakeries in Mexico experienced strong growth in 2000 providing broader opportunities for Kerry's range of bakery blends. In recognition of the rapid development of food markets in

the region, the Group has opened a new corporate headquarters for Latin America at the World Trade Center in Mexico City. The Research and Development Center at the Group's manufacturing facility in Irapuato has also been expanded to cater for a broader range of Kerry's ingredient technologies.

In South America, Kerry's market development programme continued. The Três Corações facility in Brazil successfully completed its first full year's production, bringing the Group's core technologies to South American markets.

Below: Kerry Mexico, Central America and the Caribbean Executives
(far right) Kevin Lane *President* with (left to right) Marco Montero, James Cruger, Irina Anaya and Carlos Gonzales de Cossio.





Above: Kerry South America Executives
(far right) Jerry Henchy, *President* with
Malcolm Sheil and Maria Korn.



Good growth was recorded in all technology sectors. Kerry's capability in cheese and dairy flavourings, complemented by its locally based product development and manufacturing facilities, represent a strong competitive advantage in the region. Progress was also achieved through meat seasonings and coating systems to the growing value-

added meat industries, in particular in the Brazilian poultry sector. As international growth trends in the coffee, chocolate beverage, dessert and bakery sectors become more apparent in the region, Kerry's speciality lipids and functional dairy technologies are already deriving strong benefits from such trends.

Business Review Asia Pacific



Development in Asia Pacific markets continued apace during 2000. However rationalisation of Pinnacle bakery ingredients services in Australia and capacity limitations ahead of the commissioning of the major expansion of the Group's Malaysian facilities resulted in a marginally lower turnover in the region at €131.2m compared to €135.0m in 1999. Operating profits increased by 73.9% to €12.1m.



Satisfactory growth continues in the Australian value-added poultry market where Kerry's status as a leading supplier of marinades, glazes, seasonings and the introduction of coating systems contributed to a strong performance in the sector. Relationships with global and regional quick-service restaurant chains in Australia and New Zealand were boosted by a number of new product launches. Similarly advances were made in the prepared foods sector through Kerry's savoury technologies. Speciality lipid technologies were also successfully introduced to the Australian market in



	2000	1999	1998
Sales	€131.2m	€135.0m	€67.4m
Operating Profit	€12.1m	€7.0m	€2.3m

2000, to capitalise on significant opportunities in the beverage and nutritional sectors.

In the Australian bakery sector, Kerry Pinnacle rationalised its distribution services to focus on growth sectors through national and regional bakery chains and supermarket in-store bakeries. The Pinnacle brand, already recognised for its superior quality, has been considerably strengthened by the addition of dedicated marketing and research and development resources.

Substantial progress was made in establishing two world class ingredients production facilities in Australia through the Group's AUS20m investment programme undertaken as a result of the Burns Philp acquisition. By year-end a major expansion of the Murarrie facility in Brisbane was completed. Upgrading and expansion of Kerry Australia's second facility in Altona, Victoria will be completed by mid-year 2001, as

Business Review Asia Pacific

will development of a new corporate headquarters and global technical centre at Homebush Bay, Sydney.

Double digit growth was achieved by Kerry New Zealand during the year 2000. Progress was achieved through snack seasonings, coating systems and bakery blends.

Kerry continued progress in developing its presence in both the South East Asian and North East Asian markets in 2000. By year-end the second major expansion programme to significantly boost production capacity at the Group's Johor Bahru facility in Malaysia was close to completion,



establishing the largest and most technically advanced food ingredients processing facilities of its kind in Asian markets. With representative sales offices now established in Singapore, Thailand, Indonesia, the Philippines, Japan, China and Hong Kong, the Group has developed strong relationships with beverage, nutritional, food processor, snack and quick-service-restaurant customers in the region. While volume growth was limited in the year under review due to production capacity constraints, demand for speciality lipid systems primarily to the beverage sector and for cheese and dairy flavourings to the snack and biscuit sectors was very encouraging. With the state-of-the-art production, technical development and pilot plant facilities now in place at the Johor Bahru facility, Kerry also anticipates strong growth through coating systems and savoury flavourings to the fast growing Asian food processor and foodservice markets.

Below:
Finbarr O'Driscoll, *President Kerry Ingredients International*,
with Kerry Asia Executives (left to right) Maribel Villaranto, Mark
McCormack, Edison Chan and Greg Heath, *President Kerry Asia*.



Financial Review

Results

Turnover growth of 6.7% combined with an increase in operating profit margins from 8.3% to 8.9% resulted in a 16.3% increase in earnings per share before goodwill amortisation and exceptional items. This very satisfactory rate of earnings per share growth in 2000, when added to previous years' performance, gives a compound annual growth rate in earnings per share of 17.5% over the last five years and 18.9% since going public in 1986.

Kerry Corporate Executives
(below left) Brian Mehigan, Michael J. Ryan,
Declan Crowley and Tom Reynolds.

(below right) Padraic Coughlan, Tom Murphy,
Brian Durran, Michael Rice and Frank Hayes.



Free cash flow

An important measure of Group performance is the amount of cash generated by operations and in the year under review operating cash flow (EBITDA) of €296.2m was generated by the Group. Free cash flow of €109.4m remained after cash

expenditure on capital works of €95.7m, interest of €47.6m, tax of €42.1m and dividends of €14.2m. Over the last five years free cash flow has amounted to €525.5m which has been used to fund the expansion of the Group and repay borrowings.

a	1996 €m	1997 €m	1998 €m	1999 €m	2000 €m
EBITDA*	149.5	171.7	225.6	258.7	296.2
Reduction in working capital	25.7	19.5	41.5	3.6	12.8
Capital expenditure (net)	(41.4)	(30.3)	(65.1)	(79.4)	(95.7)
Interest	(35.4)	(33.4)	(44.7)	(39.5)	(47.6)
Taxation	(8.6)	(9.5)	(26.6)	(28.1)	(42.1)
Dividends	(7.2)	(8.4)	(10.1)	(12.0)	(14.2)
Free cash flow	82.6	109.6	120.6	103.3	109.4

*Before exceptional items

Treasury management

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, Internal and External Audit. The Group operates a centralised treasury function which manages the financial risks of the Group. The principal objectives of the Group's Financial Risk Management Programme are:

- to manage the Group's exposure to foreign exchange rate fluctuations;
- to manage the Group's exposure to interest rate fluctuations; and
- to ensure that the Group has sufficient credit facilities.

These financial exposures are managed through operational means and by using approved financial instruments.

Group policy requires that credit exposures may only be taken on a limited basis with banks or financial institutions that have been approved by Group Treasury. The Group controls its dealing activity by providing dealing mandates to, and operating standard settlement instructions with, its banking counterparts. The Finance Committee approves the financial instruments that may be used. The Group does not engage in speculative trading.

Foreign currency management

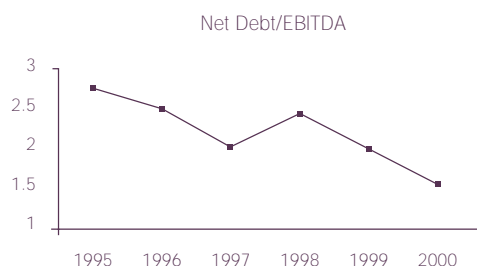
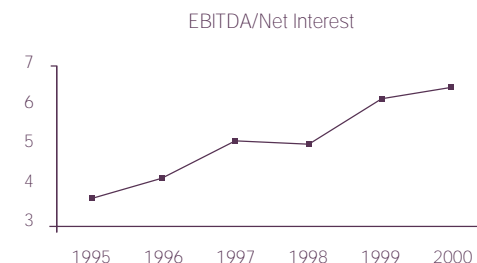
Trading exposure to foreign currencies are managed, where appropriate, by netting and by using foreign currency forward contracts. The principal foreign currency exposures arise on Sterling and US Dollar purchases and receivables. The Group minimises the effect of balance sheet translation exposure primarily through matching net foreign currency investments with foreign currency borrowings.

Interest rate management

The Group finances its operations through a combination of share capital, retained profits, bank borrowings and debt raised from institutional investors. The Group's exposure to interest rate fluctuation is managed by optimising the mix of fixed and floating rate borrowings. As at 31 December 2000, 55% of Group net debt was at fixed interest rates.

Funding and liquidity management

Group liquidity is managed through ensuring a diversity of funding sources, having an appropriate spread of debt maturities, maintaining Group target financial ratios and maintaining effective relationships with funding providers. The Group is considered a prime borrower by, and maintains a strong relationship with, its providers of finance. The Group has performed strongly against the key funding ratios of EBITDA to net interest, and net debt to EBITDA over the last 5 years as illustrated by the following graphs:



The Group aims to have at least 70% of net borrowings maturing after 2 years. As at 31 December 2000, 87% (1999 : 85%) of Group net debt matures after 2 years.

Further information on borrowings and financial instruments is contained in Note 28 to the financial statements.



Kerry Group plc

15 years of continuous growth

1986



Kerry Group Profit and Loss Account
15 Year History

	1986 €'000	1987 €'000	1988 €'000	1989 €'000	1990 €'000	1991 €'000
Turnover	336,788	369,861	503,732	710,483	741,653	958,565
Operating profit						
Before goodwill amortisation and exceptional items	14,166	14,471	22,736	39,866	40,585	53,436
Goodwill amortisation	-	-	-	-	-	-
Operating profit before exceptional items	14,166	14,471	22,736	39,866	40,585	53,436
Profit / (loss) on sale of assets	18	(83)	123	-	142	38
Interest payable and similar charges	6,148	4,092	6,332	15,528	13,782	18,732
Profit before taxation and exceptional items	8,036	10,296	16,527	24,338	26,945	34,742
Taxation	47	274	409	593	846	2,089
Profit after taxation and before exceptional items	7,989	10,022	16,118	23,745	26,099	32,653
Exceptional items (net of tax)	-	-	-	-	-	-
Minority interest	573	609	696	543	(387)	260
Profit attributable to Kerry Group plc	7,416	9,413	15,422	23,202	26,486	32,393
Dividends	1,040	1,463	1,901	2,896	3,487	4,260
Retained profit for the year	6,376	7,950	13,521	20,306	22,999	28,133
Earnings per ordinary share before goodwill amortisation and exceptional items (€cents)	7.6	8.4	12.7	16.3	17.6	21.1

15

1986

Shares in Kerry Group plc are listed on the Irish Stock Exchange on 9 October 1986 following placement of shares at IR52p (€66c).

Search for international acquisitions intensifies with expansion of overseas offices in the U.S. and the UK. Further investment in Ireland leads to expansion in convenience foods sector and opening of a new research centre at Group headquarters in Tralee. Responding to changing lifestyles and consumer demand for convenient 'healthy foods' Kerry pioneers development of spreadable low-fat butter with launch of Dawn Light. Partnership with leading UK multiple retailers in development of private label spread products results.

1987

Denny consolidates its position as the number one supplier of pork products on the Irish market through acquisition of Henry Denny and Sons (Ulster) Limited, adding the Portadown production facility to Denny's Irish operations.

Kerry commissions its first overseas production facility in Jackson, Wisconsin (U.S.) and focuses on developing its specialist food ingredients business.

1988

US\$130 million acquisition of Beatrice Food Ingredients, the premier specialty food ingredients supplier in the U.S. market, establishes a major platform for Kerry's growth and development into a leading global food ingredients corporation. This brings the number of Group production facilities in the U.S. to five, including the Jackson facility.

Kerry Foods diversifies into the fast growing European poultry sector through the acquisition of Ballyfree and Grove processing operations and brands in Ireland.

Overseas offices are established in mainland European countries.

Group Turnover (€ million)

3000

2500

2000

1500

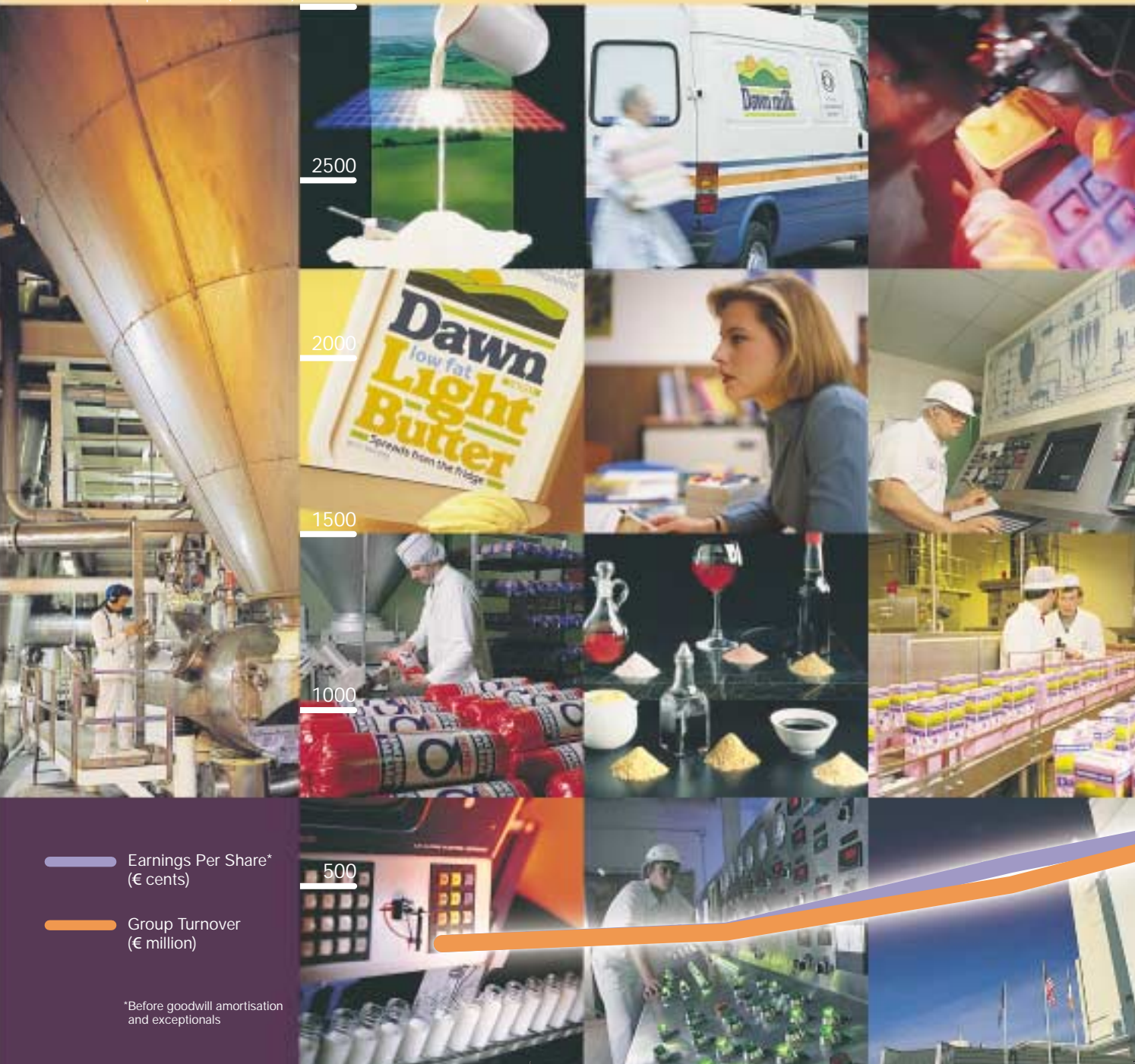
1000

500

Earnings Per Share*
(€ cents)

Group Turnover
(€ million)

*Before goodwill amortisation
and exceptionals



UK specialist poultry business expands through acquisition of A.E. Button Ltd., contributing to significant increase in product listings with UK multiples for Kerry's expanded range of value-added poultry products.

Turnover increases by 41% to €710m following successful integration and expansion of 1988 Group acquisitions.

Low-Low is successfully launched in Ireland. Collaborative programmes involving technologists at the Listowel (Ireland) and Beloit (U.S.) technical centres lead to development of specialist patented ingredients for nutritional and convenience food sectors.

Milac GmbH in Germany is acquired, increasing Kerry's presence in the European confectionery sector.

Premium sliced meat products under the Denny and Ballyfree brands achieve strong market growth. Denny range expands to include wider range of pies, pastry and snack products.

Commencing in the U.S., major food processors and foodservice corporations streamline operations, focusing on core business development and branding programmes. Specialist food ingredients companies increasingly fulfill the critical R&D function. Kerry's U.S. flavours and seasonings business awarded 'Supplier of the Year' by leading multinational food processor.

UK acquisition of Miller and Robirch, completed at year-end 1990, results in major expansion of Kerry Foods operations in the savoury products sector. The Miller brand is relaunched through convenience and independent retail sector, to be distributed through the acquired business' UK distribution network.

Kerry expands its international food ingredients activities through the addition of Dairyland Products, Minnesota, USA, and Eastleigh Flavours in the UK.

Growing demand for value-added prepared food products and for greater variety and broader flavour profiles leads to a significant increase in new product development. Kerry Ingredients is increasingly selected as preferred supplier by major multinational food manufacturers. Manufacturing capability in the U.S. is increased through acquisition of Northland Foods, based in Owen, Wisconsin.

Portadown production facility is expanded to cater for broader range of savoury products. Kerry Foods further expands its poultry operations by acquiring Kantoher Foods products in Ireland.



Kerry's position in European snack and food processor markets is enhanced through acquisition of Tingles (UK) Ltd.

In Canada Kerry's market development programme is significantly advanced through purchase of Research Foods and Malcolm Foods. Opening of international sales offices in Argentina and Taiwan underscore Kerry's commitment to future market development in Asia and South America.

Kerry Foods enters the mineral water market by acquiring Kerry Spring located in Ballyferrier, Co. Kerry. Denny launches novel wafer-thin sliced meat products under Denny Waifos brands.

A US\$30m investment programme establishes a state-of-the-art food ingredients processing facility and technical centre in Irapuato, Mexico.

Kerry Foods commissions a new greenfield €24m cooked meat products facility at Shillelagh, Wicklow, Ireland, strengthening Denny's branded position in Ireland and creating valuable export opportunities. The division's branded position in the UK chilled foods market receives a major boost through the acquisition of the Mattessons Wall's business.

The US\$402m acquisition of DCA Food Industries Inc. and Margett Foods, brings Kerry market leadership positions in food coatings, bakery ingredients and fruit preparations markets internationally. DCA's operations, located in the U.S., Canada, the UK, Poland and Australia, supply food processor and the fast growing foodservice sectors.

Reinvestment in Richmond and Wall's lead to number one and number two brand positions in the UK market. Kerry Foods also capitalises on Mattessons strong identity in the areas of premium sliced meats, continental sausage and snack products. Integration of Mattessons Wall's van sales operations with Kerry's distribution facilities establishes the largest direct sales distribution service to UK independent retail and convenience stores.

Ciprial S.A. with operations in France and Italy, combined with the Margetts business in the UK, establishes Kerry as a leading supplier of fruit flavours and preparations to the yoghurt, ice cream, dairy and bakery industries.

Buy-out of the remaining 50% equity of the joint venture partnership trading as Solutech DCA builds an important platform for the Group in the Australian food industry.

Kerry Foods wins its category of the Grocer/IFE Business Excellence Awards, held in conjunction with the 10th IFE Exhibition in London.



2000

Acquisitions of Shade Foods (U.S.), Solnuts (U.S.), SFI Europe and York Dragee provide strong growth opportunities for Kerry to extend the unique flavoured particulates, high protein inclusions, chocolate and compound coatings technologies to ready-to-eat cereals, confectionery, dairy, ice cream, bakery and nutraceutical markets globally.

In Australia, an AU\$20m programme to establish two large ingredients production facilities in Queensland and Victoria are well advanced, and in Malaysia, a further US\$12m programme to significantly expand production nears completion. Armour Food Ingredients is acquired strengthening Kerry's position in the U.S. speciality ingredients market.

Denny launches a range of ready meals and in the UK 'Wall's Instant's' are launched.

80

60

40

20

1999

Kerry invests US\$20m in establishing a multi-processing food ingredients production and technical facility in Tres Coracoes, Minas Gerais, Brazil to service the food industry in Mercosur countries.

The addition of Tukania Proca GmbH in Rodgau, Germany further consolidates Kerry's position in the European snack sector.

Completion of a Stg£15m new manufacturing facility at Burton-on-Trent places Kerry in a strong position for further growth in the fast growing UK chilled ready meals market. Investment in category management, in response to consumer dynamics, contributes significant mutual advantage to retailers and Kerry's consumer foods businesses.

1998

The Group establishes its first production facility and technical centre in Asia, through investment in Johor Bahru, Malaysia. The acquisition of the ingredients division of Dalgety, with pan-European manufacturing facilities, located in the UK, France, Germany, Italy, the Netherlands, Hungary, Poland and Ireland – complementing the Group's leadership position in North American markets – significantly advances Kerry's position in food coatings, flavours, seasonings and bakery applications.

Similarly the acquisition of the ingredients businesses of Burns Philp, with manufacturing bases in Australia and New Zealand lead to a major expansion of Kerry's seasonings, flavours, coatings, marinades and bakery ingredients business in Asia Pacific markets.

1997

Kerry Spring becomes the second strongest brand in the total mineral water market in Ireland and brand leader in the flavoured water sector. Dawn brand juices and Move Over Butter are successfully launched. Kerry Foods expands its recipe dish business in the UK and develops a leading position in the oriental ready meals category.

Kerry continues to develop strongly in global ingredients markets through investment in – culinary resources to create benchmark prototypes, – technology advances delivering fresher flavours and improved textures, – state-of-the-art sensory services optimising taste delivery, – and through 'global friendly' formulations to meet regulatory demands.



In 1986, Kerry Group plc was launched as a public company with the objective of building a growth oriented, profitable international food organisation. On flotation all Group operations were located in Ireland. Over the following 15 years Kerry has grown to become a leader in global food ingredients markets and a leading processor and marketer of chilled consumer food products in selected European markets. With manufacturing and technical facilities now successfully established in fifteen countries across four continents, the Group has achieved compound annual growth in earnings per share of 18.9% since going public. Market capitalisation has grown from €70 million at the end of 1986 to €2.34 billion at year-end 2000.



1992 €'000	1993 €'000	1994 €'000	1995 €'000	1996 €'000	1997 €'000	1998 €'000	1999 €'000	2000 €'000
1,049,739	1,117,338	1,120,794	1,522,534	1,565,908	1,706,692	2,200,001	2,456,352	2,621,913
58,920	63,736	70,533	108,866	115,031	133,184	173,379	203,614	233,747
-	-	-	-	-	-	9,573	12,103	15,364
58,920	63,736	70,533	108,866	115,031	133,184	163,806	191,511	218,383
(309)	(13)	456	(2,140)	-	-	112	-	-
17,635	13,956	14,701	37,744	35,395	33,437	44,744	42,309	45,680
40,976	49,767	56,288	68,982	79,636	99,747	119,174	149,202	172,703
4,953	7,566	9,498	6,419	9,019	17,681	24,380	34,662	40,649
36,023	42,201	46,790	62,563	70,617	82,066	94,794	114,540	132,054
-	-	-	-	-	-	-	(39,062)	450
198	235	-	-	-	-	-	-	-
35,825	41,966	46,790	62,563	70,617	82,066	94,794	75,478	132,504
4,478	5,151	5,851	6,928	7,959	9,153	11,620	13,539	15,603
31,347	36,815	40,939	55,635	62,658	72,913	83,174	61,939	116,901
23.0	26.9	29.8	38.2	43.0	50.0	61.1	73.6	85.6

Directors and Other Information

Directors

Michael Hanrahan, Chairman
Denis Buckley, Vice Chairman
Denis Brosnan, Managing Director*
Hugh Friel, Deputy Managing Director*
Denis Cregan, Deputy Managing Director*
Michael Griffin*

Stan McCarthy*

James L. Brosnan

James V. Brosnan

Michael Dowling

Richard Fitzgerald

Michael Gabbett

Michael Harty

Philip Healy

Ivor Kenny

Thomas McEnery

Eugene McSweeney

Patrick O'Connell

John O'Connor

Roger O'Rahilly

all of Prince's Street, Tralee, Co. Kerry, Ireland

**Executive*

Secretary and registered office

Brian Durran
Prince's Street
Tralee
Co. Kerry
Ireland

Registrar and transfer office

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



Report of the Directors

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2000.

Principal activities

Kerry Group is a leader in global food ingredients markets and a leading consumer foods processing and marketing organisation in Ireland and the United Kingdom. The Group has pursued a strategic expansion programme which has led to the establishment of manufacturing, technical and marketing facilities in Ireland, the UK, France, Germany, Italy, Poland, the Netherlands, Hungary, the US, Canada, Mexico, Brazil, Australia, New Zealand and Malaysia. Kerry is committed to being a leader in its selected markets through technological creativity, superior product quality and superior customer service.

Results and dividends

The Directors are pleased to report profit before taxation and exceptional items of €172.7m (an increase of 15.8% over 1999) and earnings per share before goodwill amortisation and exceptional items of 85.6 cents (an increase of 16.3% over 1999). Turnover from continuing activities in the period amounted to €2.6 billion (an increase of 6.7% over 1999). Further details of the results for the year are set out in the profit and loss account on page 50 and in the related notes forming part of the financial statements.

On 26 February 2001, the Directors recommended a final dividend totalling €10.6m in respect of the year ended 31 December 2000 (see Note 8 to the financial statements). The dividend is in addition to the interim dividend paid to shareholders on 30 November 2000 which amounted to €5.0m.

The final dividend will be paid on 29 May 2001 to shareholders registered on the record date 4 May 2001. This dividend is an increase of 15.0% over the final dividend paid on 30 May 2000.

Acquisitions and disposals

Acquisitions

The Group completed a number of acquisitions during the year, the most significant of which are detailed below:

The acquisition of Shade Foods, located in the US, and Speciality Food Ingredients (SFI), located in Europe, was completed in January 2000 at a total cost of US\$80m. Shade Foods and SFI are leaders in food ingredients particulates technology.

York Dragee, a UK based company providing chocolate inclusions and coated particulates to the cereal, confectionery, bakery and ice cream sectors in the UK and mainland Europe, was acquired in July 2000.

Armour Food Ingredients, a US business, providing a wide range of speciality food ingredients including savoury flavourings, cheese and dairy flavourings and speciality lipid powders to the US food industry was acquired in October 2000 from Conagra Inc. for a total consideration of US\$35m.

Disposals

The Group disposed of two of its operations during the year. The US and Canadian based DCA Bakery business was sold to Pillsbury Bakeries & Foodservice in February 2000 for a total consideration of US\$100.7m.

In December 2000 the Group disposed of part of the business and assets of Dawn Dairies Limited in Ireland.

Research and development

Research and development programmes to develop existing and new technologies and processes are critical to the success and sustained profitable growth of the Group. Expenditure on research and development amounted to €52.4m in 2000 (1999: €44.3m).

During 2000 the Group commenced the implementation of a global knowledge management system for research and development activity. It will enable the Group to leverage its existing product portfolio and to quickly respond to customer requests. It is also key to linking Group product development globally and in proliferating R&D generated intellectual property throughout the Group.

Report of the Directors (continued)

Employees

The whole-hearted commitment and enthusiasm of all employees is central to the success of the Group. Accordingly, communication of information and exchange of ideas are actively encouraged and managed across the Group. Training initiatives are in line with corporate objectives and management supports a learning culture whereby employees are encouraged and assisted to develop and grow with the organisation.

The Group is committed to the principle of equality and complies with all relevant equality and anti-discrimination legislation.

The average employment of the Group worldwide in 2000 was 13,410 (1999: 13,258).

Health and safety

The Group complies with national health and safety legislative requirements in each country of operation. The well-being of all employees is safeguarded through strict adherence to Group policy and standards as well as local regulations and best practice.

The environment and the community

The Group is committed to its social and legal responsibilities with regard to the communities within which it operates and to the environment at large. This commitment is borne by its continued investment in facilities, systems and processes that measure and manage waste emission, energy consumption, and materials and packaging conservation. Kerry, through the adoption of best practice procurement policies, also recognises the requirement to source sustainable raw materials as it continuously seeks to enhance its role as a leading international food company and supplier of quality products to its valued customers. Through continuing to develop employees' knowledge regarding environmental responsibilities and best practice, the Group is fully committed to environmental protection as a fundamental part of all business activities.

Future developments

The Group is confident that it is well placed with regard to both the market place and the pace of industry consolidation that has been taking place to avail of significant acquisition and other market opportunities in the coming year.

Board of Directors

The Board consists of five executive and fifteen non-executive Directors. The current Directors are as listed on page 36.

Chairman

The Chairman, Mr. Michael Hanrahan (72) is a non-executive Director and has no other current directorships.

Executive Directors

Dr. Denis Brosnan (56) is Managing Director and has held this position since the formation of Kerry Group plc in 1986. He is Chief Executive of Kerry Co-operative Creameries Limited, Chairman of the Irish Horseracing Authority and is a director of a number of other public and private companies in Ireland and the UK.

Mr. Hugh Friel (56) is joint Deputy Managing Director of the Company and has been with the Group since its formation.

Mr. Denis Cregan (54) is joint Deputy Managing Director of the Company and has been with the Group since its formation. He is chairman of Kerry Airport plc.

Mr. Stan McCarthy (43) is an executive Director and is President of Kerry Ingredients Americas.

Mr. Michael Griffin (53) is an executive Director and is Chief Executive Officer of the Group's Consumer Foods Division, Kerry Foods.

Non-Executive Directors

Mr. Denis Buckley (55) is a director of Irish Agricultural Wholesale Society Limited, IAWS Group plc and is chairman of Kerry Co-operative Creameries Limited.

Mr. Michael Dowling (56) is a director of Irish Distillers Limited, An Bord Bia and a number of other private companies. He is a former Secretary General of the Department of Agriculture and Food in Ireland and is a visiting professor in the Faculty of Food Science and Technology at National University of Ireland, Cork. He is a member of the European Commission conciliation body. He is head of Agribusiness Strategy in Allied Irish Banks, plc.

Dr. Ivor Kenny (70) is a director of Independent News and Media plc and of IONA Technologies plc. A senior research fellow at University College, Dublin, he is an advisor on strategy to international companies and is Chancellor of the International Management Centres.

Mr. Philip Healy (67) is a director of Irish Co-operative Society Limited.

Mr. Patrick O'Connell (67) is a director of the National Dairy Council.

The other non-executive Directors (with the exception of Mr. Richard Fitzgerald who has no other directorships) are directors of Kerry Co-operative Creameries Limited.

Board Changes

On 26 February 2001 the Board announced that Dr. Denis Brosnan will retire as Managing Director and will succeed Mr. Michael Hanrahan as Chairman of the Company. It has also been agreed that Mr. Hugh Friel will replace Dr. Brosnan as Managing Director. These new appointments will be effective from 1 January 2002.

Mr. Diarmuid O'Connell and Mr. Daniel T. O'Sullivan retired from the Board on 1 November 2000 and 15 December 2000 respectively. On 26 February 2001 Mr. James V. Brosnan and Mr. Roger O'Rahilly were co-opted to the Board to fill the vacancies caused by the retirement of Mr. O'Connell and Mr. O'Sullivan.

Mr. James V. Brosnan (59) is a director and council member of Irish Co-operative Organisation Society Limited and Kerry Co-operative Creameries Limited. Mr. Roger O'Rahilly (63) is a director of Kerry Co-operative Creameries Limited.

Election of Directors

Under Article 102 of the Articles of Association of the Company, Mr. James V. Brosnan and Mr. Roger O'Rahilly, who were appointed to the Board on 26 February 2001, will retire at the Annual General Meeting to be held on 29 May 2001 and are seeking re-election at that meeting.

In addition, Mr. James L. Brosnan, Mr. Michael Dowling, Mr. Richard Fitzgerald, Mr. Michael Hanrahan, Dr. Ivor Kenny and Mr. Thomas McEnery retire by rotation. Dr. Kenny is not seeking re-election.

Report of the Directors (continued)

Directors' and Company Secretary's interests

The interests of the Directors and Company Secretary of the Company and their spouses and minor children in the share capital of the Company, all of which were beneficial, were as follows:

	<i>Number of A Ordinary Shares</i>	
	<i>31 December 2000</i>	<i>31 December 1999</i>
Directors		
Denis Brosnan	308,000	308,000
James L. Brosnan	23,304	23,304
James V. Brosnan	25,069	26,969
Denis Buckley	140,314	140,314
Denis Cregan	262,500	262,500
Michael Dowling	1,200	1,200
Richard Fitzgerald	20,906	38,842
Hugh Friel	325,000	325,000
Michael Gabbett	11,805	11,805
Michael Griffin	106,700	106,700
Michael Hanrahan	21,321	21,321
Michael Harty	36,227	36,227
Philip Healy	64,026	64,026
Ivor Kenny	3,070	3,070
Stan McCarthy	36,279	36,279
Thomas McEnery	1,250	1,250
Eugene McSweeney	26,031	26,031
Patrick O'Connell	99,752	99,752
John O'Connor	6,463	6,463
Roger O'Rahilly	4,749	4,749
Company Secretary		
Brian Durran	22,900	22,900

The above holdings have not changed between 31 December 2000 and the date of this report.

Directors' and Company Secretary's interest in share options

	<i>Number of shares over which options are held*</i>	<i>Year of Grant</i>	<i>Earliest Exercisable Date</i>	<i>Latest Exercisable Date</i>	<i>Option Price</i>
Directors					
D. Brosnan	360,000	1997	30 June 2000	1 October 2006	€8.00
H. Friel	200,000	1997	30 June 2000	1 October 2006	€8.00
D. Cregan	200,000	1997	30 June 2000	1 October 2006	€8.00
M. Griffin	125,000	1997	30 June 2000	1 October 2006	€8.00
S. McCarthy	125,000	1997	30 June 2000	1 October 2006	€8.00
Company Secretary					
B. Durran	30,000	1997	30 June 2000	1 October 2006	€8.00

* There were no options issued to, or exercised by Directors during the year.

There has not been any contract or arrangement 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.

Substantial interests

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

Shareholder	Number Held	%
Kerry Co-operative Creameries Limited	64,148,067	37
Bank of Ireland Asset Management Limited	9,616,991	6
AIB Investment Managers Limited	7,915,634	5
AIM Funds Management Inc.	6,729,622	4

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

Statement of Directors' responsibilities

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in the UK and Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 1999, the European Communities (Companies: Group Accounts) Regulations, 1992 and the Listing Rules of both the Irish and UK Stock Exchanges. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

Kerry Group plc is committed to achieving high standards of corporate governance throughout the Group. The Board considers that it has complied throughout the financial period with the provisions laid out in section 1 of the Combined Code: Principles of Good Governance and Code of Best Practice (Combined Code) except in relation to the requirements to appoint a senior independent non-executive Director and a Nomination Committee, the reasons for which are detailed below.

Board of Directors

The Board leads and maintains effective control over the Group's activities and comprises five executive Directors and fifteen non-executive Directors. All non-executive Directors are considered to be independent and there is a clear division of responsibilities between the roles of Chairman and Managing Director. The Board is of the opinion that the non-executive Directors as a group are of a sufficient calibre and number to bring strength and independence to the Board and hence does not propose to nominate any one non-executive Director to be a senior independent Director.

The Board meets monthly, with additional meetings to consider the interim and full-year results, and more frequently as considered necessary. It has a formal schedule of matters specifically reserved to it for decision which includes approval of the overall Group strategic plan, annual budgets, acquisitions and divestitures, risk management, treasury and accounting policies and major corporate activities.

All Directors have full and timely access to such information, as they require, to discharge their responsibilities fully and effectively - they receive monthly Group management financial statements and reports and Board papers are sent to each in sufficient time before Board meetings.

Report of the Directors (continued)

The Chairman of each Committee of the Board is available to give a report on the Committee's proceedings at Board meetings as required. 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 is, in addition, able to take independent professional advice at the Company's expense.

Appropriate training and briefing is available to all Directors on appointment to the Board, with further training available subsequently as required. Nomination responsibilities, which include considering the need for and the making of Board appointments, both executive and non-executive, are currently retained by the Board of Directors and hence the Company does not consider it necessary to appoint a separate Nomination Committee.

In accordance with the Articles of Association, all Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. All Directors, with the exception of the Managing Director, are required to retire by rotation every three years and may submit themselves for re-election.

The Board has delegated authority to various committees of the Board on a number of specific matters as detailed below:

Audit Committee

The Audit Committee comprises Mr. Michael Hanrahan, Mr. Denis Buckley and is chaired by Mr. Michael Dowling, all of whom are independent non-executive Directors. It examines and reviews internal controls, compliance, financial accounting policies and practices, the form and content of financial reports and general matters brought to its attention by both the Group's Internal and External Auditors.

Remuneration Committee

The Committee comprises Mr. Denis Buckley (Chairman), Mr. Michael Hanrahan and Mr. Patrick O'Connell, all of whom are independent non-executive Directors. The role of the Remuneration Committee is to determine executive Directors' remuneration, which is reviewed annually. The Committee consults with the Group Managing Director in relation to executive Directors' remuneration and has access to internal and external professional advice as required. Decisions are made within agreed reference terms, with meetings held as required. Members of the Committee have no personal interest in the outcome of their decisions and give due regard to the interests of shareholders and the performance of the Company.

Remuneration

Remuneration policy

The Group's remuneration policy is to ensure that executive Directors' remuneration properly reflects their duties and responsibilities, and is sufficient to attract, retain and motivate people of the highest quality worldwide. Remuneration includes performance related elements designed to align Directors' interests with those of shareholders and to encourage performance at the highest levels. In setting remuneration levels, the Committee has regard to comparable companies 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. Full details of the Directors' remuneration are given on pages 43 - 44.

Executive Directors' remuneration comprises basic salary, performance related incentive awards, participation in pension schemes, share option incentives and benefits.

Executive Directors' basic salary

The Remuneration Committee sets the basic salary and other benefits of each executive Director by reference to individual performance and external market data.

The executive Directors participate in the Group's general pension scheme with contributions and pension benefits based on basic salary (performance bonuses are excluded).

Other benefits

Other benefits relate primarily to cars.

Performance related incentive awards

Executive Directors participate in performance related annual bonus schemes, which are based on achieving predetermined earnings targets set by the Remuneration Committee. The structure of this bonus is reviewed regularly to ensure that it develops in line with the Group's strategic goals.

Share based incentives

The Remuneration Committee approves the terms, conditions and allocation of share options to executive Directors and senior executives. A total of 1,010,000 shares have been granted under option to the executive Directors and the respective amounts are shown on page 40.

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 in general meeting, consideration is given to both the complexity of the Group and the level of fees paid to non-executive Directors in comparable companies. Non-executive Directors do not participate in the Group's incentive plans, pension/superannuation arrangements or other elements of remuneration provided to the executive Directors.

Service contracts

The Group does not have any service contracts with its Directors.

Directors' remuneration

Disclosures regarding Directors' remuneration have been drawn up on an individual Director basis in accordance with the requirements of both the Combined Code and the Irish Stock Exchange:

a) Executive Directors' remuneration

	<i>Salaries</i>	<i>Performance</i>	<i>Benefits-</i>	<i>Pension</i>	<i>Total</i>
	<i>€'000</i>	<i>related</i>	<i>in-kind</i>	<i>€'000</i>	<i>€'000</i>
		<i>€'000</i>	<i>€'000</i>		
Denis Brosnan	463	292	9	82	846
Hugh Friel	330	208	22	60	620
Denis Cregan	305	192	33	55	585
Michael Griffin	318	202	27	36	583
Stan McCarthy	329	214	35	10	588
2000	1,745	1,108	126	243	3,222
1999	1,514	1,538	105	215	3,372

b) Executive Directors' benefits under defined benefit pension schemes

	<i>Accrued benefits on leaving service at end of year</i>		<i>Transfer value of</i>
	<i>Increase during year</i>	<i>Accumulated total</i>	<i>increase in accumulated</i>
	<i>(excluding inflation)</i>	<i>at end of year</i>	<i>accrued benefits</i>
	<i>2000</i>	<i>2000</i>	<i>2000</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Denis Brosnan	52	285	810
Hugh Friel	20	187	251
Denis Cregan	18	174	242
Michael Griffin	17	161	286
Stan McCarthy	7	61	19
	114	868	1,608

Report of the Directors (continued)

c) Non-executive Directors' remuneration

	Fees €
Michael Hanrahan	30,474
Denis Buckley	22,855
James L. Brosnan	15,237
Michael Dowling	30,474
Richard Fitzgerald	15,237
Michael Gabbett	15,237
Michael Harty	15,237
Philip Healy	15,237
Ivor Kenny	19,046
Thomas McEnery	15,237
Eugene McSweeney	15,237
Diarmuid O' Connell*	13,967
Patrick O'Connell	15,237
John O'Connor	15,237
Daniel T. O'Sullivan*	15,237
2000	<hr/> 269,186
1999	<hr/> 229,000

* Retired during the year

Non-executive Directors' remuneration consists of fees only. The total remuneration for all Directors in 2000 amounted to €3,491,186 (1999: €3,601,000). There were no other emoluments paid to the executive or non-executive Directors other than as disclosed above.

Executive share option scheme

The Group operates an executive share option scheme, the terms and conditions of which were approved by the shareholders. The policy is to grant options under the scheme to key executives across the Group to encourage identification with shareholder interests. On 29 June 2000 1,493,000 shares were granted under option to 303 executives at an option price of €13.42 per share. Currently, approximately 570 executives worldwide hold options. At 31 December 2000 the total number of shares under option was 5,223,000 (1999: 4,217,000).

Relations with shareholders

The Board strongly supports a programme of regular ongoing communication with the Company's shareholders. The programme, which is formalised within an investor relations framework, includes presentations of interim and full year results and regular meetings of senior management with the Company's institutional investors. The Group's internet site (www.kerrygroup.com) allows a significant amount of published material, including results and presentations, to be readily accessible to all shareholders on demand. Regular communication is also entered into with individual shareholders on a wide range of issues through this medium.

The Annual General Meeting provides an opportunity for the Directors to deliver presentations on the business and for shareholders, both institutional and private, to question the Directors directly. The Chairman of the Board, together with the Chairmen of the Audit and Remuneration Committees, are available to answer questions as required. Notice of the Annual General Meeting, together with the Annual Report and Accounts, is 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 accounts. Details of the proxy votes for and against each resolution are announced after the result of the hand votes.

Accountability and audit

A statement relating to the Directors' responsibilities in respect of the preparation of the financial statements is on page 41 with the responsibilities of the Company's Auditors outlined on page 47.

Going concern

The financial statements have been prepared on the going concern basis and, as required by the Combined Code, the Directors report that they have satisfied themselves that the Group is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the Directors have reviewed the Group's budget for 2001, the medium term plans as set out in the rolling five year plan, and have taken into account the cash flow implications of the plans, including proposed capital expenditure, and compared these with the Group's committed borrowing facilities and projected gearing ratios.

Internal control

The Company, as required by the Irish and London Stock Exchanges, has complied with the Combined Code provisions on internal control, having established the procedures necessary to implement the guidance issued in September 1999 (The Turnbull Committee Report), and by reporting in accordance with that guidance.

The Board of Directors has overall responsibility for the Group's systems of internal control and risk management. It is also responsible for monitoring the effectiveness of these systems on an ongoing basis. The system of internal control provides 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 it produces, for both internal use and for publication.

The key elements of the system are as follows:

- The Group operates a policy of decentralisation. Responsibility for each business unit is passed to local management and is overseen by the respective Business Manager in line with Group responsibility structures and the executive incentive programme;
- The Board of Directors reviews and approves a detailed annual budget each year which is used for comparison with monthly management accounts throughout the year;
- Written policies and procedures are issued centrally for all material functional areas and are approved by the executive Directors;
- The Group has a clearly defined process for controlling capital expenditure including use of appropriate authorisation levels. The overall capital expenditure programme for the year is reviewed by the Board of Directors annually with specific projects being approved by the Managing Director and reported to the Board on a quarterly basis;
- All business acquisition and disposal decisions are taken exclusively by the Board of Directors;
- The Group Finance Committee, which includes Dr. Denis Brosnan and Mr. Hugh Friel, 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; and
- A procedure is in place across the Group for the submission of annual risk and control reports from management, through the Audit Committee, to the Board. These reports emanate from a wider risk identification and awareness programme which cover financial, operational, business and compliance risks.

The Directors have procedures in place to enable them to continually monitor the effectiveness of the system of internal controls. These procedures include:

- The operations of the Audit Committee whose function it is to approve audit plans and deal with significant control issues raised by the Internal and External Auditors;
- The Group's internal audit function which continually reviews the internal controls and systems in all businesses, makes recommendations for improvement and reports to the Audit Committee;

Report of the Directors (continued)

- The Group has established a Corporate Compliance function designed to establish compliance policy and monitor compliance across the Group's 15 plus countries of operation, carry out compliance reviews and share best practice among the compliance functions in the individual business units;
- As part of their normal audit procedures the External Auditors test the systems of internal control and report weaknesses, if any, to the Audit Committee;
- The Board, through the Audit Committee, has completed an annual assessment of risk and controls. Internal Audit has facilitated the Board in this assessment by preparing a consolidated Group Risk and Control Report for their review. In addition, as part of the monitoring process, the Audit Committee will immediately convene to deal with any significant control weaknesses reported by Internal Audit and Management;
- Adherence to the policies outlined in the Group's procedures manual ensures all the key controls in the internal control system are complied with; and
- Any significant variance between the budget and the detailed monthly management accounts is investigated by management and remedial action is taken as necessary.

The Directors confirm that they have reviewed the effectiveness of the system of internal control operated during the period covered by these accounts and up to the date of this report. The procedures adopted also comply with the guidance contained in *Internal Control: Guidance for Directors on the Combined Code*.

Subsidiaries

The principal subsidiaries are listed in Note 32 to the financial statements.

Auditors

The Auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with section 160(2) of the Companies Act, 1963.

Pensions

Information in relation to the Group's pension schemes is given in Note 30 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 2000.

Signed on behalf of the Board:

Michael Hanrahan, Chairman

Denis Brosnan, Managing Director

26 February 2001

Report of the Auditors

To the members of Kerry Group plc

We have audited the financial statements on pages 48 to 72 which have been prepared under the accounting policies set out on pages 48 and 49.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 41, preparation of the financial statements which are required to be prepared in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent Auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 1999 and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information required by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not given and where practicable, include such information in our report.

We review whether the Corporate Governance statement on pages 41 to 46 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Irish Stock Exchange and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board and generally accepted in Ireland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1999 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report on pages 37 to 46 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 52, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2000 a financial situation which, under section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

Deloitte & Touche

Chartered Accountants and Registered Auditors

Deloitte & Touche House, Earlsfort Terrace, Dublin 2

26 February 2001

Statement of Accounting Policies

The significant accounting policies adopted by the Group are as follows:

Basis of preparation

The financial statements have been prepared in accordance with accounting standards generally accepted in the UK and Ireland and Irish statute comprising the Companies Acts, 1963 to 1999 and the European Communities (Companies: Group Accounts) Regulations, 1992 and the Listing Rules of the Irish and UK Stock Exchanges.

Accounting convention and reporting currency

The Group financial statements are prepared under the historical cost convention. The 2000 financial statements and the 1999 comparative figures are presented in Euro.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries all of which present financial statements up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation on the remaining tangible fixed assets is calculated by charging equal annual instalments to the profit and loss account so as to provide for their cost over the period of their expected useful lives at the following annual rates:

Buildings	2% - 5%
Plant, Machinery and Equipment	7% - 25%
Motor Vehicles	20%

Goodwill and other intangible assets

Goodwill represents the difference between the cost of businesses acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions since 1998 has been capitalised on the balance sheet and is amortised to the profit and loss account in equal annual instalments over its expected useful life, not exceeding 20 years.

Goodwill in respect of acquisitions prior to 1998 remains eliminated against reserves and will be charged or credited to the profit and loss account only on subsequent disposal.

Other intangible assets acquired are capitalised at their fair value and are amortised to the profit and loss account over their estimated useful lives, not exceeding 20 years. Other intangible assets include such items as trademarks, patents and knowhow.

Foreign currency

Foreign currency transactions are translated into local currency at the rate of exchange ruling at the date of the transaction, or where applicable, at the contracted rate.

Assets and liabilities denominated in foreign currencies are translated into local currency at contract rates where the amounts payable and receivable are covered by forward contracts. All other amounts payable and receivable are translated at rates of exchange ruling at the balance sheet date.

Exchange adjustments arising from the retranslation of the opening net investment in foreign subsidiaries are transferred directly to reserves. All other exchange differences are taken into account in arriving at the profit before taxation.

Stocks

Stocks are valued on a first in, first out basis, at the lower of cost and estimated net realisable value. Cost includes all expenditure incurred in the normal course of business in bringing the products to their present location and condition. Net realisable value is the estimated selling price of stock on hand less all further costs to completion and all costs expected to be incurred in marketing, distribution and selling.

Deferred taxation

Deferred taxation represents the amount required to allow for the effect of certain items of income and expense (primarily depreciation) being attributable for tax purposes to periods different from those in which credits or charges are recorded in the financial statements. Such taxation is determined using the liability method, by applying the rate of tax applicable at the balance sheet date to the accumulated timing difference.

Deferred taxation is not provided where, in the opinion of the Directors, there is reasonable evidence that such taxation will not become payable in the foreseeable future and there is no indication that the situation will change thereafter.

Pensions

The expected cost of providing pensions to employees is charged to the profit and loss account at a substantially level percentage of payroll over the employees' expected service lives. Any difference between the amount so charged and the amount contributed to pension funds is included as a provision in the financial statements.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Development grants

Development grants of a capital nature are accounted for as deferred income and are released to the profit and loss account at the same rates as the related assets are depreciated.

Operating leases

The annual rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Financial instruments

Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognised in the profit and loss account when the underlying transaction occurs.

When a financial instrument ceases to be a hedge, the instrument is closed out and the resulting gain or loss is taken directly to the profit and loss account.

New standard adopted

Financial Reporting Standard 16 *Current Tax* (FRS 16) has been adopted in the Group's 2000 financial statements. FRS 16 sets out criteria for the recognition and disclosure of current taxation and does not have a material effect on either the measurement or the classification of the Group's assets and liabilities.

Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Notes	2000 €'000	1999 €'000
Turnover			
Continuing operations	1	2,621,913	2,456,352
Operating profit - continuing operations			
Before goodwill amortisation and exceptional items	2	233,747	203,614
Goodwill amortisation	11	15,364	12,103
Exceptional restructuring costs	4	–	35,359
Operating profit	1-2	218,383	156,152
Profit on sale of businesses	4	1,194	–
Loss on sale of fixed assets	4	744	–
Interest payable and similar charges	5	45,680	42,309
Profit before taxation		173,153	113,843
Taxation - ordinary activities	6	40,649	34,662
- exceptional items	6	–	3,703
		40,649	38,365
Profit after taxation and attributable to ordinary shareholders		132,504	75,478
Dividends - paid	8	5,033	4,369
- proposed	8	10,570	9,170
		15,603	13,539
Retained profit for the year		116,901	61,939
Earnings per ordinary share (€cents)			
- basic before goodwill amortisation and exceptional items	9	85.6	73.6
- basic after goodwill amortisation and exceptional items	9	77.0	43.9
- fully diluted after goodwill amortisation and exceptional items	9	76.4	43.6

The financial statements were approved by the Board of Directors on 26 February 2001 and signed on its behalf by:

Michael Hanrahan, Chairman

Denis Brosnan, Managing Director

Consolidated Balance Sheet

as at 31 December 2000

	Notes	2000 €'000	1999 €'000
Fixed assets			
Tangible assets	10	671,821	607,347
Intangible assets	11	290,139	234,153
		961,960	841,500
Current assets			
Stocks	13	285,351	272,354
Debtors	14	332,035	332,976
Cash at bank and in hand		27,995	13,261
		645,381	618,591
Creditors: Amounts falling due within one year	15	(579,448)	(566,512)
Net current assets		65,933	52,079
Total assets less current liabilities		1,027,893	893,579
Creditors: Amounts falling due after more than one year	16	(495,807)	(521,060)
Provisions for liabilities and charges	17	(3,001)	(20,394)
		529,085	352,125
Capital and reserves			
Called-up equity share capital	18	21,553	21,846
Capital conversion reserve fund	20	340	–
Share premium account	19	193,651	190,694
Profit and loss account	20	289,470	114,712
		505,014	327,252
Deferred income	21	24,071	24,873
		529,085	352,125

The financial statements were approved by the Board of Directors on 26 February 2001 and signed on its behalf by:

Michael Hanrahan, Chairman

Denis Brosnan, Managing Director

Company Balance Sheet

as at 31 December 2000

	Notes	2000 €'000	1999 €'000
Fixed assets			
Tangible assets	10	3,164	3,329
Financial assets	12	69,477	69,477
		72,641	72,806
Current assets			
Debtors	14	217,760	216,670
Cash at bank and in hand		5,286	1,002
		223,046	217,672
Creditors: Amounts falling due within one year	15	(16,844)	(16,003)
Net current assets		206,202	201,669
		278,843	274,475
Capital and reserves			
Called-up equity share capital	18	21,553	21,846
Capital conversion reserve fund	20	340	–
Share premium account	19	193,651	190,694
Profit and loss account		62,904	61,523
		278,448	274,063
Deferred income	21	395	412
		278,843	274,475

The financial statements were approved by the Board of Directors on 26 February 2001 and signed on its behalf by:

Michael Hanrahan, Chairman

Denis Brosnan, Managing Director

Consolidated Cash Flow Statement

for the year ended 31 December 2000

	Notes	2000 €'000	1999 €'000
Operating profit before goodwill amortisation and exceptional items		233,747	203,614
Depreciation (net)	22	62,422	55,078
Change in working capital	22	14,750	3,779
Exchange translation adjustment		(1,945)	(149)
Net cash flow from operating activities		308,974	262,322
Return on investments and servicing of finance			
Interest received		1,353	536
Interest paid		(48,937)	(39,993)
Taxation		(42,107)	(28,137)
Capital expenditure			
Purchase of tangible fixed assets		(100,837)	(91,059)
Proceeds on the sale of fixed assets		3,425	7,986
Development grants received		1,733	3,701
Purchase of intangible fixed assets		(45)	–
Acquisitions and disposals			
Purchase of subsidiary undertakings		(115,619)	(5,712)
Proceeds on the sale of businesses		97,732	–
Deferred creditors paid		(1,867)	(4,562)
Exceptional restructuring costs		(6,810)	(19,692)
Consideration adjustment on previous acquisitions		–	12,101
Issue of share capital		3,004	–
Equity dividends paid		(14,203)	(12,015)
Cash inflow before the use of liquid resources and financing		85,796	85,476
Financing			
Decrease in debt due within one year	23	(30,820)	(35,756)
Decrease in debt due after one year	23	(40,242)	(49,193)
Increase in cash in the year		14,734	527

Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 31 December 2000

Increase in cash in the year		14,734	527
Cashflow from debt financing		71,062	84,949
Change in net debt resulting from cash flows		85,796	85,476
Exchange translation adjustment	24	(19,611)	(64,273)
Movement in net debt in the year		66,185	21,203
Net debt at beginning of year		(544,532)	(565,735)
Net debt at end of year	23	(478,347)	(544,532)

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2000

	Notes	2000 €'000	1999 €'000
Profit attributable to the Group		132,504	75,478
Exchange translation adjustment on foreign currency net investments	24	(17,274)	10,064
Total recognised gains and losses relating to the year		115,230	85,542

Note of Historical Cost Profits and Losses

for the year ended 31 December 2000

There are no material differences between the results reported and those prepared on a historical cost basis.

Notes to the Financial Statements

for the year ended 31 December 2000

1. Analysis of results by region

	2000			1999		
	Turnover	Operating	Net	Turnover	Operating	Net
	€'000	Profit	Assets	€'000	Profit	Assets
	€'000	€'000	€'000	€'000	€'000	€'000
By geographical market of origin:						
Ireland	645,874	37,306	126,880	613,671	34,506	105,963
Rest of Europe	1,140,934	91,900	579,822	1,092,613	85,836	591,176
Americas	703,869	92,422	251,846	615,025	76,305	167,760
Asia Pacific	131,236	12,119	48,884	135,043	6,967	31,758
	2,621,913	233,747	1,007,432	2,456,352	203,614	896,657
Goodwill amortised	–	(15,364)	–	–	(12,103)	–
Exceptional restructuring costs	–	–	–	–	(35,359)	–
Group borrowings (net)	–	–	(478,347)	–	–	(544,532)
	2,621,913	218,383	529,085	2,456,352	156,152	352,125

	2000		1999
	Turnover		Turnover
	€'000		€'000
By destination:			
Ireland	418,261		394,344
Rest of Europe	1,274,588		1,224,234
Americas	768,613		675,255
Asia Pacific	160,451		162,519
	2,621,913		2,456,352

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

2. Profit on ordinary activities before taxation comprises:

	Notes	2000 €'000	1999 €'000
Turnover		2,621,913	2,456,352
<i>Less operating costs:</i>			
Raw materials and consumables		1,514,245	1,461,559
Other external charges		234,083	227,588
Staff costs	3	459,382	403,371
Depreciation	10	64,946	57,465
Development grant amortisation	21	(2,524)	(2,387)
Operating charges		124,886	114,939
Change in stock of finished goods		(6,852)	(9,797)
Operating profit before goodwill amortisation and exceptional items		233,747	203,614
Goodwill amortisation	11	15,364	12,103
Exceptional restructuring costs	4	–	35,359
Operating profit		218,383	156,152
<i>And is stated after charging:</i>			
Research and development costs		52,406	44,333
Auditors' remuneration		1,346	1,336

Directors' emoluments

Directors' emoluments are set out in the Directors' remuneration section of the Report of the Directors on pages 43-44.

3. Staff numbers and costs

The average number of people employed by the Group was as set out below:

	Total 2000 Number	Total 1999 Number
Management	311	301
Administration	1,082	1,174
Production	9,842	9,812
Sales	1,914	1,702
Others	261	269
	13,410	13,258

The aggregate payroll costs of these people (including executive Directors) were as follows:

	2000 €'000	1999 €'000
Wages and salaries	401,043	352,791
Social welfare	39,658	35,006
Pension costs	18,681	15,574
	459,382	403,371

4. Exceptional items

	Notes	2000 €'000	1999 €'000
Profit on sale of businesses		1,194	–
Loss on sale of fixed assets		(744)	–
Restructuring costs		–	(35,359)
		450	(35,359)
Taxation effect of exceptional items	6	–	(3,703)
	9	450	(39,062)

The Group disposed of its DCA bakery business in the US and Canada to Pillsbury Bakeries and Foodservice in February 2000 for US\$100.7m. The cost of goodwill, previously written off to reserves, disposed of with the DCA bakery business amounted to €75.1m (note 20). The taxation effect of this disposal is disclosed in note 6. The Group also completed the sale of part of the business and assets of Dawn Dairies Limited in Ireland in 2000. The taxation and goodwill effects of this disposal are immaterial. The exceptional items in 1999 relate to the major restructuring programme undertaken by the Group consequent to the significant acquisitions in 1998.

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

5. Interest payable and similar charges

	2000 €'000	1999 €'000
This comprises the following:		
On bank loans, overdrafts and other loans repayable in 5 years	41,154	32,588
On other loans repayable after 5 years	5,879	10,257
	47,033	42,845
Interest receivable	(1,353)	(536)
	45,680	42,309

6. Taxation

	2000 €'000	1999 €'000
The taxation charge for the year comprises:		
Based on profit on ordinary activities		
Corporation taxation	5,534	7,293
Adjustments in respect of prior years	(278)	(96)
	5,256	7,197
Overseas corporation taxation	37,178	30,760
Adjustments in respect of prior years	(351)	(798)
	36,827	29,962
Deferred taxation	(1,434)	(2,497)
	40,649	34,662
Based on exceptional items		
Overseas taxation credit arising on the exceptional restructuring costs	–	(5,325)
Deferred taxation arising on the disposal of the DCA Bakery business	(9,028)	9,028
Corporation taxation arising on the disposal of the DCA Bakery business	9,028	–
	–	3,703

7. Profit attributable to Kerry Group plc

Profit for the year after taxation and attributable to ordinary shareholders amounting to **€16,984,000** (1999: €69,229,000) has been accounted for in the financial statements of the Holding Company.

As permitted by Section 3(2) of the Companies (Amendment) Act, 1986, a separate profit and loss account of the Holding Company is not presented.

8. Dividends

	2000 €'000	1999 €'000
Paid:		
Interim dividend of €2.92c per A ordinary share (1999: €2.54c)	5,033	4,369
Proposed and payable 29 May 2001:		
Final dividend of €6.13c per A ordinary share (1999: €5.33c)	10,570	9,170
	15,603	13,539

The above dividend payments are inclusive of withholding tax. The amount of withholding tax deducted from the interim dividend was **€418,000** (1999: €264,000). The figure for withholding tax deducted on payment of the 1999 final dividend was €646,000.

9. Earnings per share

	Notes	EPS €cents	2000 €'000	EPS €cents	1999 €'000
Profit after taxation, before goodwill amortisation and exceptional items		85.6	147,418	73.6	126,643
Goodwill amortisation		8.9	15,364	7.0	12,103
Exceptional items (net)	4	(0.3)	(450)	22.7	39,062
Profit after taxation, goodwill amortisation and exceptional items		77.0	132,504	43.9	75,478
Share option dilution		0.6	–	0.3	–
		76.4	132,504	43.6	75,478

The basic weighted average number of ordinary shares in issue for the year was **172,149,130** (1999: 172,047,213). The diluted weighted average number of ordinary shares in issue for the year was **173,500,688** (1999: 173,076,245). The dilution arises in respect of executive share options outstanding.

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

Notes to the Financial Statements (continued)
for the year ended 31 December 2000

10. Tangible fixed assets

	Notes	Land and Buildings €'000	Plant, Machinery and Equipment €'000	Motor Vehicles €'000	Total €'000
(a) Group:					
Cost					
At beginning of year		371,009	640,445	29,525	1,040,979
Businesses acquired	25	18,686	21,674	39	40,399
Additions		23,991	74,439	2,613	101,043
Disposals		(6,262)	(25,268)	(3,198)	(34,728)
Translation adjustment	24	3,527	6,121	(59)	9,589
At end of year		410,951	717,411	28,920	1,157,282
Accumulated depreciation					
At beginning of year		79,659	329,834	24,139	433,632
Businesses acquired	25	762	4,960	–	5,722
Charge during year		11,622	51,247	2,077	64,946
Disposals		(1,527)	(17,150)	(2,912)	(21,589)
Translation adjustment	24	1,098	1,719	(67)	2,750
At end of year		91,614	370,610	23,237	485,461
Net book value					
At end of year		319,337	346,801	5,683	671,821
At beginning of year		291,350	310,611	5,386	607,347

	Land and Buildings €'000	Plant, Machinery and Equipment €'000	Total €'000
(b) Company:			
Cost			
At beginning and end of year	4,514	688	5,202
Accumulated depreciation			
At beginning of year	1,185	688	1,873
Charge during year	165	–	165
At end of year	1,350	688	2,038
Net book value			
At end of year	3,164	–	3,164
At beginning of year	3,329	–	3,329

11. Intangible assets

	Notes	Goodwill €'000	Other Intangibles €'000	Total €'000
Group:				
At beginning of year		140,648	93,505	234,153
Arising on acquisitions	25	45,129	26,300	71,429
Additions		–	45	45
Amortised during year		(9,150)	(6,214)	(15,364)
Exchange translation adjustment	24	473	(597)	(124)
At end of year		177,100	113,039	290,139

The balance at the end of the year is comprised of cost **€327.7m** (1999: €256.7m) and accumulated amortisation **€37.6m** (1999: €22.5m). Other intangibles include such items as trademarks, patents and knowhow which were acquired by the Group.

12. Financial assets

Company:

Unquoted shares in subsidiaries at cost as at 31 December 2000 were **€69,477,000** (1999: €69,477,000).

13. Stocks

	2000 €'000	1999 €'000
Group:		
Raw materials and consumables	122,226	116,914
Finished goods and goods for resale	147,306	140,454
Expense stocks	15,819	14,986
	285,351	272,354

The replacement cost of stocks does not differ materially from the amount stated above.

14. Debtors

	Group 2000 €'000	Group 1999 €'000	Company 2000 €'000	Company 1999 €'000
Trade debtors due within one year	298,212	297,392	–	–
Other debtors and prepayments	32,039	33,406	–	–
Trade debtors due after one year	1,784	2,178	–	–
Amounts due by Group companies	–	–	217,760	216,670
	332,035	332,976	217,760	216,670

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

15. Creditors: Amounts falling due within one year

		Group	Group	Company	Company
		2000	1999	2000	1999
	Notes	€'000	€'000	€'000	€'000
Bank loans and overdrafts	28	44,635	74,823	5,527	6,622
Trade creditors		408,213	390,195	–	–
Other creditors and accruals		80,176	65,632	116	211
Taxation and social welfare		35,324	26,692	631	–
Proposed dividends		10,570	9,170	10,570	9,170
Deferred payments on acquisition of subsidiaries		530	–	–	–
		579,448	566,512	16,844	16,003
Taxation and social welfare comprises:					
Corporation tax		26,268	17,827	631	–
PAYE		5,662	5,611	–	–
PRSI		3,394	3,254	–	–
		35,324	26,692	631	–

16. Creditors: Amounts falling due after one year

	Notes	2000	1999
		€'000	€'000
Group:			
Long term debt	28	461,707	482,970
Other creditors and accruals		30,115	35,685
Deferred payment on acquisition of subsidiaries		3,985	2,405
		495,807	521,060

All Group borrowings are secured by guarantees from Kerry Group plc and cross guarantees from various companies within the Group.

17. Provisions for liabilities and charges

	Deferred	Acquisition	
	Taxation	Restructuring	Total
	2000	2000	2000
	€'000	€'000	€'000
Group:			
At beginning of year	13,179	7,215	20,394
Utilised during the year	(10,462)	(6,810)	(17,272)
Arising on acquisitions	267	–	267
Exchange translation adjustment	17	(405)	(388)
At end of year	3,001	–	3,001

The potential liability for deferred taxation not provided for in these financial statements, which relates primarily to accelerated capital allowances, amounts to **€29,893,000** (1999: €25,725,000).

18. Share capital

	2000 €'000	1999 €'000
Group and Company:		
Authorised:		
At beginning of year (A ordinary shares of IR£0.10 each)	25,395	25,395
Redenomination and renominalisation of share capital	(395)	–
At end of year (A ordinary shares of €0.125 each)	25,000	25,395
Allotted, called-up and fully paid:		
At beginning of year (A ordinary shares of IR£0.10 each)	21,846	21,846
Transfer to capital conversion reserve fund	(340)	–
Issued during year	47	–
At end of year (A ordinary shares of €0.125 each)	21,553	21,846

(a) Redenomination and renominalisation of share capital

Due to the introduction of the Euro each of the issued and unissued ordinary shares of IR£0.10 per share was redenominated into an ordinary share of €0.1269738 following a resolution passed at the Annual General Meeting held on 30 May 2000. 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 (note 20).

	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

(b) Share issue

During 2000, 378,000 A ordinary shares, each with a nominal value of €0.125, were issued at €8.0 per share to executives in the Group under share option schemes. The total number of shares in issue at 31 December 2000 was **172,425,213** (1999: 172,047,213).

19. Share premium

	Notes	2000 €'000	1999 €'000
Group and Company:			
At beginning of year		190,694	190,694
Shares issued during year	18	2,977	–
Share issue costs		(20)	–
At end of year		193,651	190,694

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

20. Reconciliation of movements in share capital and reserves

	Notes	Capital			Total €'000
		Share Capital and Premium €'000	Conversion Reserve Fund €'000	Profit & Loss Account €'000	
At beginning of year		212,540	–	114,712	327,252
Retained profit		–	–	116,901	116,901
Renominalisation of share capital	18	(340)	340	–	–
Share issue		3,024	–	–	3,024
Share issue costs		(20)	–	–	(20)
Goodwill written back on disposal		–	–	75,131	75,131
Exchange translation adjustment		–	–	(17,274)	(17,274)
At end of year		215,204	340	289,470	505,014

The Profit & Loss Account figures comprise the following:

	Intangible Assets Written Off €'000	Retained Profits €'000	Profit & Loss Account €'000
At beginning of year	(474,698)	589,410	114,712
Retained profit	(15,364)	132,265	116,901
Goodwill written back on disposal	75,131	–	75,131
Exchange translation adjustment	–	(17,274)	(17,274)
At end of year	(414,931)	704,401	289,470

The exchange translation adjustment arises on the retranslation of the Group's opening net investment in its overseas subsidiaries (note 24).

21. Deferred income

	Notes	Group 2000 €'000	Group 1999 €'000	Company 2000 €'000	Company 1999 €'000
Development grants:					
At beginning of year		24,873	23,328	412	430
Grants received / receivable		1,733	3,701	–	–
Amortised during year		(2,524)	(2,387)	(17)	(18)
Exchange translation adjustment	24	(11)	231	–	–
At end of year		24,071	24,873	395	412

22. Analysis of cash flow components

	2000 €'000	1999 €'000
Group:		
The components of the net cash flow from operating activities can be analysed as follows:		
Depreciation (net):		
Depreciation	64,946	57,465
Development grant amortised	(2,524)	(2,387)
	62,422	55,078
Change in working capital:		
Increase in stocks	(4,472)	(3,611)
Decrease / (increase) in debtors	5,752	(30,020)
Increase in creditors	13,470	37,410
	14,750	3,779

23. Analysis of net debt/net funds

	At Beginning of Year €'000	Cash Flow €'000	Exchange Movement €'000	At End of Year €'000
Group:				
Cash in hand and at bank	13,261	14,734	–	27,995
Overdrafts	(3,395)	1,142	(495)	(2,748)
Debt due within one year	(71,428)	29,678	(137)	(41,887)
Debt due after one year	(482,970)	40,242	(18,979)	(461,707)
	(544,532)	85,796	(19,611)	(478,347)

24. Effect of currency translation adjustments

	2000 €'000	1999 €'000
Group:		
Increase / (decrease) in assets:		
Tangible fixed assets	6,839	43,916
Goodwill and other intangible assets	(124)	13,332
Stocks	3,489	21,388
Debtors	1,335	25,619
(Increase) / decrease in liabilities:		
Creditors	(7,563)	(28,593)
Borrowings	(19,611)	(64,273)
Deferred creditors	295	(945)
Deferred income	11	(231)
Revenue reserves	(1,945)	(149)
	(17,274)	10,064

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

25. Businesses acquired

	Fair Values 2000 €'000	Fair Values 1999 €'000
Net assets acquired:		
Tangible fixed assets	34,677	2,003
Goodwill and other intangible assets	71,429	2,520
Net current assets	14,554	1,189
Liabilities due after one year	(1,157)	–
	119,503	5,712
Discharged by:		
Cash	115,619	5,712
Deferred payment	3,884	–
	119,503	5,712

The fair values above are not materially different from the book values.

During the year the Group acquired a number of businesses. The SFI Group of speciality food ingredients businesses comprising operations in the US and the Netherlands was acquired in January 2000 for a total consideration of US\$80m. The acquisition of York Dragee, located in the UK, was completed in July 2000. The acquisition of Armour Food Ingredients in October 2000 in the US further expands the Group's presence in the speciality food ingredients business. The total consideration for Armour Food Ingredients was US\$35m.

The acquisition method of accounting has been used to consolidate the businesses acquired in 2000 in the Group financial statements.

During 1999 the Group completed a number of acquisitions totalling €5.7m.

26. Contingent liabilities

	2000 €'000	1999 €'000
Company:		
(a) Guarantees in respect of borrowings of subsidiaries	500,815	551,173
(b) Guarantees to banks in respect of deferred payments on acquisition of subsidiaries	522	459
	501,337	551,632

- (c) For the purposes of Section 17 of the Companies (Amendment) Act, 1986 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 32, in respect of all losses and liabilities as referred to in Section 5(c) of the Companies (Amendment) Act, 1986 for the financial year ending on 31 December 2000 or any amended financial period incorporating the said financial year. The company has given similar indemnities in relation to a subsidiary in the Netherlands, Kerry Ingredients B.V.

27. Other financial commitments

	2000 €'000	1999 €'000
Group:		
(a) Capital commitments at 31 December for which no provision has been made in these accounts are as follows:		
Capital commitments in respect of contracts placed	16,454	15,053
Capital expenditure authorised by the Directors but not yet contracted for at the year end	24,612	829
	41,066	15,882
(b) At the balance sheet date the Group had commitments, payable in 2001, under non-cancellable operating leases which expire as follows:		
	Land and Buildings €'000	Other €'000
		Total €'000
Within one year	1,473	2,468
Between two and five years	3,949	10,998
After five years	2,171	–
	7,593	13,466
		21,059

The operating lease charges during 2000 amounted to **€24,535,000** (1999: €19,447,000).

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

28. Financial instruments

The Group's treasury policy and management of derivatives and other financial instruments, which form part of these financial statements, is set out in the Financial Review on page 29.

(a) Currency profile of net financial liabilities

The currency profile of net financial liabilities as at 31 December 2000 was as follows:

	2000 €'000	1999 €'000
Euro	8,026	94,478
Sterling	122,398	95,677
US Dollar	308,663	315,960
Other	39,260	38,417
	478,347	544,532

The above analysis includes **€28.0m** cash balances as at 31 December 2000 which were predominantly US Dollar denominated (1999: €13.3m, predominantly Euro denominated).

(b) Interest rate profile of net financial liabilities

Financial liabilities

At the year end **€263.2m** (1999: €317.5m) of Group net debt was at fixed interest rates and was all denominated in US Dollars. All other debt was at floating interest rates. The weighted average interest rate for fixed borrowings was **8.3%** (1999: 8.0%) and the weighted average period for which the rate was fixed was **3.9 years** (1999: 4.0 years). The floating rate financial liabilities comprised bank borrowings bearing interest at rates fixed in advance for periods ranging from one month to six months by reference to LIBOR (in the case of Sterling borrowings), EURIBOR (in the case of Euro borrowings) and Prime Rate or LIBOR (in the case of US Dollar borrowings).

Financial assets

The Group had no other financial assets as at 31 December 2000 or at 31 December 1999 other than the cash balances disclosed above.

(c) Maturity of net financial liabilities

The maturity profile of the Group's net financial liabilities as at 31 December 2000 was as follows:

	2000 €'000	1999 €'000
Within one year	16,640	61,562
Between 1 and 2 years	47,760	20,805
Between 2 and 5 years	350,266	343,117
After 5 years	63,681	119,048
	478,347	544,532

28. Financial instruments (continued)

Borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines in accordance with anticipated needs. At 31 December 2000 the Group had a portfolio of undrawn committed bank facilities which amounted to **€21.2m** (1999: €16.3m) and a portfolio of undrawn standby facilities amounting to **€261.5m** (1999: €154.8m). The undrawn committed facilities expire between 2 and 5 years.

(d) Currency exposures

The table below shows the Group's currency exposures which consist of those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the Profit and Loss Account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved, other than certain borrowings treated as hedges of net investments in overseas operations. At 31 December 2000 these exposures were as follows:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities) in €'000							
	2000				1999			
	Euro	Sterling	US Dollar	Other	Euro	Sterling	US Dollar	Other
Euro	–	(3,741)	134	111	–	(4,563)	219	(308)
Sterling	(313)	–	–	(9)	20	–	2,028	428
US Dollar	–	–	–	–	–	–	–	17
Other	(104)	(812)	3,454	(192)	(31)	(229)	(2,235)	(688)
Total	(417)	(4,553)	3,588	(90)	(11)	(4,792)	12	(551)

The amounts shown above take into account the effect of forward contracts and other derivatives entered into to manage these currency exposures. At 31 December 2000 the Group also held open various foreign currency forward contracts that were taken out to hedge expected future sales and purchases.

(e) Fair values of financial assets and financial liabilities

The fair value of borrowings maturing after 1 year was **€478.5m** (1999: €496.2m), compared to book value of **€461.7m** (1999: €483.0m). The fair value of forward foreign currency contracts was not materially different from their book value (1999: (€6.0m)). The fair value of the Group's other financial assets and financial liabilities were not materially different from their book value. Market values have been used to determine the fair value of all financial liabilities.

(f) Hedges

At 31 December 2000 there were no material gains or losses on forward foreign exchange contract hedges carried forward for future recognition in the Profit and Loss Account (1999: (€6.0m)).

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

29. Related party transactions

In the ordinary course of business as farmers, Directors have traded on standard commercial terms with the Group's Agribusiness Division. Aggregate purchases from, and sales to, these Directors amounted to **€1,099,000** (1999: €1,029,000) and **€358,000** (1999: €337,000), respectively. The trading balance outstanding to the Group at the year end was **€65,000** (1999: €37,000).

30. Pensions

The Group operates pension plans throughout the world and these plans are structured to accord with local conditions and practices in each relevant country and include both defined benefit and defined contribution plans. The assets of the schemes are held in separate trustee administered funds. The total pension cost to the Group for the year was **€18.7m** (1999: €15.6m). The pension cost is in accordance with the advice of qualified actuaries, using the Projected Unit Credit method. Actuarial valuations have been completed for all Group plans within the past three years.

The assumptions which most significantly affect the incidence of pension costs are those relating to the rate of return on investments and the rate of increase in pensionable remuneration. The financial assumptions inherent in the actuarial basis underlying the schemes assume that the long term investment return would on average exceed the rate of increase in pensionable remuneration by 2% per annum.

At the dates of the most recent actuarial valuations the market value of the schemes' assets amounted to €339.0m and the actuarial value of the schemes' assets was more than sufficient to cover 100% of the benefits that had accrued to the members of the combined schemes, after allowing for the expected future increase in pensionable remuneration and pensions in payment. Actuarial advice confirms that the current levels of contributions, together with existing assets, are adequate to secure members' benefits over the expected remaining service lives of the participating employees. The actuarial reports are not available for public inspection.

A provision of **€0.6m** (1999: €0.5m) is included in creditors in respect of contributions outstanding at the year end.

31. Post balance sheet events

In February 2001, the Group acquired the business of Creative Seasonings & Spices, located in Wisconsin in the US.

32. Principal subsidiaries (all wholly owned)

Company Name	Nature of Business	Country	Registered Office
Castleisland Cattle Breeding Society Limited	Agribusiness	Ireland	1
Dawn Dairies Limited	Foods	Ireland	1
Duffy Meats Limited	Foods	Ireland	1
Glenealy Farms (Turkeys) Limited	Foods	Ireland	1
Grove Turkeys Limited	Foods	Ireland	1
Henry Denny & Sons (Ireland) Limited	Foods	Ireland	1
Irish Food Ingredients (Manufacturing) Limited	Ingredients	Ireland	1
Kerry Agribusiness Holdings Limited	Investment	Ireland	1
Kerry Agribusiness Trading Limited	Agribusiness	Ireland	1
Kerry Creameries Limited	Agribusiness	Ireland	1
Kerry Farm Supplies Limited	Agribusiness	Ireland	1
Kerry Group Services Limited	Services	Ireland	1
Kerry Group Services International Limited	Services	Ireland	1
Kerry Holdings (Ireland) Limited	Investment	Ireland	1
Kerry Ingredients (Dublin) Limited	Ingredients	Ireland	1
Kerry Ingredients (Ireland) Limited	Ingredients	Ireland	1
Kerry Ingredients Holdings (Ireland) Limited	Investment	Ireland	1
Kerry Ingredients Trading Limited	Ingredients	Ireland	1
Kerry Treasury Services Limited	Services	Ireland	1
Kerrykream Limited	Ingredients	Ireland	1
Princemark Holdings Limited	Services	Ireland	1
Snowcream (Midlands) Limited	Foods	Ireland	1
A.E. Button & Sons Limited	Foods	UK	2
Kerry Foods Limited	Foods	UK	2
Kerry Holdings (UK) Limited	Investment	UK	2
Kerry Savoury Foods Limited	Foods	UK	2
Kerry Ingredients Holdings (UK) Limited	Investment	UK	3
Kerry Ingredients (UK) Limited	Ingredients	UK	3
York Dragee Company Limited	Ingredients	UK	3
Henry Denny & Sons (NI) Limited	Foods	N. Ireland	4
Kerry Group B.V.	Investment	Netherlands	5
Kerry Ingredients B.V.	Ingredients	Netherlands	6
Kerry Polska Sp. z o.o.	Ingredients	Poland	7
Kerry Ingredients France S.A.	Ingredients	France	8
Kerry Ingredients Holdings (France) S.A.	Investment	France	8
Jaeger Participations S.A.	Ingredients	France	9
France Ingredients S.A.	Ingredients	France	10
Kerry Gasparini S.r.l.	Ingredients	Italy	11
Kerry G.I.A.L. S.r.l.	Ingredients	Italy	12
Kerry Ingredients Holdings (Germany) GmbH	Investment	Germany	13
Kerry Ingredients GmbH	Ingredients	Germany	14
Kerry Tukania Proca GmbH	Ingredients	Germany	15
Kerry Hungaria KFT	Ingredients	Hungary	16

Notes to the Financial Statements (continued)

for the year ended 31 December 2000

32. Principal subsidiaries (all wholly owned) (continued)

Company Name	Nature of Business	Country	Registered Office
Kerry Hungary Limited	Services	Hungary	17
Kerry Ingredients Australia Pty. Limited	Ingredients	Australia	18
Kerry Ingredients New Zealand Limited	Ingredients	New Zealand	19
Kerry Holdings Inc.	Investment	USA	20
Kerry Inc.	Ingredients	USA	20
Shade Foods Inc.	Ingredients	USA	20
Kerry (Canada) Inc.	Ingredients	Canada	21
Kerry Ingredients S.A. de C.V.	Ingredients	Mexico	22
Kerry Ingredients (de Mexico) S.A. de C.V.	Ingredients	Mexico	22
Kerry do Brasil Ltda.	Ingredients	Brazil	23
Kerry Ingredients (S) Pte Ltd.	Ingredients	Singapore	24
Kerry Ingredients (M) Sdn. Bhd.	Ingredients	Malaysia	25

Note 1: Country represents country of incorporation and operation. Ireland refers to the Republic of Ireland.

Note 2: With the exception of the US, 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 Thorpe Lea Manor, Thorpe Lea Road, Egham, Surrey TW20 8HY, England.
- 3 Equinox South, Great Park Road, Bradley Stoke, Bristol BS32 4QL, England.
- 4 6 Corcrain Road, Portadown, Craigavon, Co. Armagh, Northern Ireland.
- 5 TMF Management B.V., West Blaak, 89, 3012 Rotterdam, The Netherlands.
- 6 Ettensebaan 10, 4814 NN Breda, The Netherlands.
- 7 25-558 Kielce, Ul. Zagnanska 97a, Poland.
- 8 Quartier Salignan, 84400 Apt en Provence, France.
- 9 6-8 Rue Robert Moinon, ZI95190, Goussainville, France.
- 10 26 Rue Jacques Prevert, 59650 Villeneuve d'Ascq, France.
- 11 Contrada Valleverde 10, Atripalda (AV) 83042, Italy.
- 12 Borgo S. Michele (Latina), Via Migliara 43, Italy.
- 13 Bahnstrasse 16, Ww-4000 Dusseldorf, Germany.
- 14 Hauptstrasse 22-26, D-63924 Kleinheubach\Main, Germany.
- 15 August-Bebel-Strasse 29-31, 63329 Egelsbach, Germany.
- 16 Foldavary u.4, H-1097 Budapest, Hungary.
- 17 H-1077 Budapest, Wesselenyi u.16, Hungary.
- 18 Unit 5, Block S, Regents Park Estate, 391 Park Road, Regents Park, N.S.W., Australia.
- 19 13th Floor, Tower Two, Shortland Centre, Shortland Street, Auckland, New Zealand.
- 20 1013 Centre Road, Wilmington, Delaware, USA.
- 21 55 King Street West, T-D Tower, T-D Centre, Suite 3600, Toronto, Ontario, Canada M5K 1N6.
- 22 Carr. Panamericana, Salamanca Km 11.2, 36660 Irapuato, Guamajua, Mexico.
- 23 Rua Luiz Lazaretti, No. 70, Parte B. Bairro Vale Verde, Valinhos, Sao Paulo, Brazil.
- 24 14A Senoko Way, #02-00 Singapore, 758035.
- 25 6th Floor, No. 3 Changat Raja Chulan, 50200 Kuala Lumpur, Malaysia.

Kerry Group
Prince's Street
Tralee
Co. Kerry
Ireland

Tel: +353 66 718 2000
Fax: +353 66 718 2961

Website: www.kerrygroup.com

