95TH

GraceKennedy

1922 - 2017

ANNUAL **REPORT** 2017

Delivering Consumer
& Shareholder value through
innovative solutions.

95TH

GraceKennedy
1922 - 2017

ANNUAL **REPORT**
2 0 1 7

Delivering Consumer
& Shareholder value through
innovative solutions.

CONTENTS.

SECTION 07

SECTION 08

SECTION 09

SECTION 10

Highlights of Our 95th Anniversary Celebrations.

Students from the Calabar Infant and Primary School celebrate GraceKennedy's anniversary on 14 February 2017.

Giving back to the Environment

We celebrated our 95th anniversary with a number of activities throughout 2017, including a contribution to improving environment by distributing 500 fruit and ornamental tree saplings to customers across the island and 95 saplings to the Environment Club at the Calabar Infant, Primary and Junior High School in downtown Kingston.

By encouraging the planting of trees, we contributed to Jamaica's Vision 2030 national goal of a healthy natural environment and the United Nations' global effort of planting one billion trees worldwide each year.

Returning Thanks

A special Mass of Thanksgiving was observed at the Holy Trinity Cathedral on Sunday 12 February 2017 in Kingston, Jamaica. The homily, delivered by Reverend Ronald Thwaites, was entitled "Grace in name and Grace in nature."

It illustrated the love that GraceKennedy has demonstrated for Jamaica through nation building and by exemplifying its core values of honesty, integrity, trust, humility and commitment. Thanksgiving services were also held at the City Church of God in Miami, Florida and at the Lenox Road Baptist Church in New York.

From left: Professor the Hon. Gordon Shirley, Chairman of the GraceKennedy Group; the Hon. Douglas Orane, retired Chairman & CEO and current member of the Board; and Donald Wehby, Group CEO.

Frank James, Group CFO and his wife, Stacy James, greet Mable Tenn (centre), former member of the Board of Directors of GraceKennedy.

Rewarding Excellence

A special 95th Anniversary CEO Excellence Award was offered to staff globally in the categories of Leadership, Service and Support, Sales, and Spirit of GraceKennedy.

Nominated by their peers and managers, the winners in each category were:

Leadership	Sales	Service and Support First Place	Service and Support Second Place	Spirit
First Place - Domestic **Zak Mars** Head of Innovation & Global Sourcing for GK Foods	Second Place - Domestic **Janneth Edwards-Cole** Sales Representative for Grace Foods & Services	First Place – Domestic (Foods) **Kimberley Lue Lim** Acting Global Category Manager for GK Foods Central	Second Place - Domestic **Nadarni Headlam** Acting Brand Manager for GK Foods Central	First Place – Domestic **Crystal-Gayle Williams** Project Officer for GK Foundation
First Place - International **Nimal Amitirigala** Global Category Manager for Grace Foods UK	First Place - Domestic **Bruce Boyd** Sales Representative for Grace Foods & Services	First Place – Domestic (Financial) **Sheldon Millington** Acting Accounts Payables Supervisor for GKRS	Second Place - International **Kevin Green** Assistant Buyer for Grace Foods UK	First Place – Domestic **Lucinda Clarke** Security Manager for GKRS
	First Place – International **Ray Hammond** Territory Sales Manager for Grace Foods UK	First Place – International **David Pinnington** DC Operator Inventory Control for Grace Foods UK		

Honouring Service!

In keeping with the longstanding tradition of rewarding hard work and loyalty, Grace Foods Canada Inc. marked the anniversary by honouring staff with a luncheon and the presentation of special awards to long serving employees to thank them for their dedicated service and commitment to the success of the company.

Members of the Canadian team led by Lucky Lankage, President (first row, third from right).

Ten-Year Financial Review.

2017–2013

	'000	'000	'000	'000	'000
	2017	**2016**	**2015**	**2014**	**2013**
Number of Shares (including treasury shares)	994,887	994,887	992,837	993,669	1,000,977
Shareholders' Equity	45,222,812	42,063,925	38,047,441	36,533,101	32,765,684
Percentage increase over prior year	7.5%	10.6%	4.1%	11.5%	6.7%
Market Capitalisation	43,615,846	40,083,997	26,889,363	20,214,540	18,374,601
Total Borrowings	16,515,615	13,242,037	13,936,107	11,064,160	11,571,790
PROFIT AND LOSS ACCOUNT					
REVENUES	92,475,652	88,267,589	79,742,230	70,839,886	67,257,502
Percentage increase over prior year	4.8%	10.7%	12.6%	5.3%	9.6%
PROFIT BEFORE TAXATION	5,819,562	6,103,330	4,303,813	4,588,432	5,075,199
Percentage increase over prior year	-4.6%	41.8%	-6.2%	-9.6%	23.7%
PROFIT AFTER TAXATION	4,772,100	4,534,862	3,254,020	3,799,127	3,794,064
Percentage increase over prior year	5.2%	39.4%	-14.3%	0.1%	0.2%
NET PROFIT ATTRIBUTABLE TO STOCKHOLDERS	4,116,101	4,004,539	2,759,498	3,285,174	3,221,634
Percentage increase over prior year	2.8%	45.1%	-16.0%	2.0%	-7.4%
DIVIDENDS PAID TO STOCKHOLDERS	1,121,519	1,010,423	820,030	770,239	727,660
Percentage increase over prior year	11.0%	23.2%	6.5%	5.9%	9.3%
IMPORTANT RATIOS					
Return on Equity	9.4%	10.0%	7.4%	9.5%	10.2%
Profit before Taxation/Sales	6.3%	6.9%	5.4%	6.5%	7.5%
Profit after Taxation/Sales	5.2%	5.1%	4.1%	5.4%	5.6%
Dividend Payout Ratio	27.2%	25.2%	29.7%	23.4%	22.6%
Earnings per Stock Unit - basic ($)	4.15	4.04	2.78	3.30	3.22
Productivity per Employee (US$'000)	17.01	16.46	11.80	14.19	17.48
Number of Employees	1,894	1,940	1,996	2,080	1,827
Debt-to-Equity Ratio	36.5%	31.5%	36.6%	30.3%	35.3%
Shareholders' Equity per Stock Unit (excluding treasury shares) : J$	45.56	42.39	38.36	36.79	32.91
Closing Stock Price - JSE : J$	43.84	40.29	27.08	20.34	18.36
Closing Stock Price - TTSE : TT$	3.00	2.67	1.35	1.22	1.15
Price-Earnings Ratio	10.56	9.97	9.73	6.16	5.70

2012–2008

	'000	'000	'000	'000	'000
	2012	**2011**	**2010**	**2009**	**2008**
Number of Shares (including treasury shares)	1,005,957	996,990	995,133	995,118	993,681
Shareholders' Equity	30,702,837	28,601,255	26,697,805	23,697,642	19,799,405
Percentage increase over prior year	7.3%	7.1%	12.7%	19.7%	-1.2%
Market Capitalisation	16,769,303	20,936,790	16,917,261	13,434,093	14,408,375
Total Borrowings	10,338,328	11,808,923	13,764,164	17,227,287	15,670,367
PROFIT AND LOSS ACCOUNT					
REVENUES	61,340,268	58,216,732	55,318,408	57,406,415	53,462,279
Percentage increase over prior year	5.4%	5.2%	-3.6%	7.4%	9.7%
PROFIT BEFORE TAXATION	4,102,404	4,032,443	3,259,648	3,653,867	2,478,893
Percentage increase over prior year	1.7%	23.7%	-10.8%	47.4%	-48.4%
PROFIT AFTER TAXATION	3,786,332	2,992,473	2,396,256	2,722,823	1,780,886
Percentage increase over prior year	26.5%	24.9%	-12.0%	52.9%	-49.6%
NET PROFIT ATTRIBUTABLE TO STOCKHOLDERS	3,478,888	2,748,813	2,250,176	2,574,955	1,674,475
Percentage increase over prior year	26.6%	22.2%	-12.6%	53.8%	-51.3%
DIVIDENDS PAID TO STOCKHOLDERS	665,937	494,874	445,007	378,838	378,313
Percentage increase over prior year	34.6%	11.2%	17.5%	0.1%	0.8%
IMPORTANT RATIOS					
Return on Equity	11.7%	9.9%	8.9%	11.8%	8.4%
Profit before Taxation/Sales	6.7%	6.9%	5.9%	6.4%	4.6%
Profit after Taxation/Sales	6.2%	5.1%	4.3%	4.7%	3.3%
Dividend Payout Ratio	19.1%	18.0%	19.8%	14.7%	22.6%
Earnings per Stock Unit - basic ($)	3.47	2.78	2.28	2.61	1.70
Productivity per Employee (US$'000)	21.13	17.56	14.03	15.76	10.88
Number of Employees	1,850	1,823	1,841	1,844	2,103
Debt-to-Equity Ratio	33.7%	41.3%	51.6%	72.7%	79.1%
Shareholders' Equity per Stock Unit (excluding treasury shares) : J$	30.57	28.69	26.83	23.81	19.93
Closing Stock Price - JSE : J$	16.67	21.00	17.00	13.50	14.50
Closing Stock Price - TTSE : TT$	1.18	1.43	1.20	1.00	1.35
Price-Earnings Ratio	4.80	7.55	7.46	5.17	8.53

Notice of Annual General Meeting.

NOTICE is hereby given that the **Annual General Meeting** of GraceKennedy Limited will be held at 73 Harbour Street, Kingston, Jamaica on Wednesday, **30 May 2018 at 4:00 p.m.** for the following purposes:

1. To receive the Audited Group Accounts for the year ended 31 December 2017 and the reports of the Directors and Auditors circulated herewith.

To consider and (if thought fit) pass the following resolution:

RESOLUTION NO. 1

"THAT the Audited Group Accounts for the year ended 31 December 2017 and the reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To declare the interim dividends paid on 18 May 2017, 26 September 2017 and 11 December 2017 as final for the year under review.

To consider and (if thought fit) pass the following resolution:

RESOLUTION NO. 2

"THAT as recommended by the Directors, the interim dividends paid on 18 May 2017, 26 September 2017 and 11 December 2017 *be and they are hereby declared as final and no further dividend be paid in respect of the year under review."*

3. To elect Directors.

The Directors retiring from office by rotation pursuant to Article 102 of the Company's Articles of Incorporation are Messrs. Frank James, Everton McDonald and Gordon Shirley who, being eligible, offer themselves for re-election.

To consider and (if thought fit) pass the following resolutions:

RESOLUTION NO. 3 (a)

"THAT the Directors retiring by rotation and offering themselves for re-election be re-elected en bloc."

RESOLUTION NO. 3 (b)

"THAT Messrs. Frank James, Everton McDonald and Gordon Shirley be and they are hereby re-elected Directors of the Company."

4. To fix the fees of the Directors.

To consider and (if thought fit) pass the following resolution:

<u>RESOLUTION NO. 4</u>

"THAT the amount shown in the Accounts of the Company for the year ended 31 December 2017 as fees of the Directors for their services as Directors be and is hereby approved."

5. To appoint Auditors and authorise the Directors to fix the remuneration of the Auditors.

To consider and (if thought fit) pass the following resolution:

<u>RESOLUTION NO. 5</u>

"*THAT PricewaterhouseCoopers, Chartered Accountants, having signified their willingness to serve, continue in office as Auditors of the Company pursuant to Section 154 of the Companies Act to hold office until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.*"

By Order of the Board

Gail Moss-Solomon (Mrs)

Corporate Secretary

Dated: 1 March 2018

Any member of the Company entitled to attend and vote at this meeting is also entitled to appoint one or more proxies to attend and vote in his/her stead. Such proxies need not be members of the Company. Instruments appointing proxies (a specimen of which has been circulated to members along with the Company's Annual Report) must be deposited with the Corporate Secretary of the Company, at 73 Harbour Street, Kingston, Jamaica, not less than forty-eight (48) hours before the meeting.

Stockholders' Report.

The financial year 2017 presented a number of opportunities and challenges for the GraceKennedy Group in all our business segments. The Group was proactive in maximizing on the opportunities that were presented, and in reducing the effect of external factors on our businesses through proper and effective risk management. We remained focused on our strategic plans and achieved several of the objectives that we had set for ourselves during 2017. Our operational strategy for 2017 was focused on strengthening and optimizing domestic and international foods operations, improving operational efficiencies across the Group, accelerating the introduction of digital products and channels, and executing our financial inclusion strategy.

Net profit after tax was J$4.77 billion for 2017 an increase of 5.2% over the prior year. Performance for the year was negatively affected by the unprecedented impact of two major hurricanes within the Caribbean region which increased the value and number of claims for our Insurance segment. In addition, as previously reported, a non-recurring gain was realized in 2016 on the dissolution of some non-operating subsidiaries. Without this gain, net profit would have increased by 15.2% or J$625.9 million, as shown in the table below. This was driven by improved operating performance in our Food Trading and Banking and Investments segments, a non-recurring gain on the successful acquisition of Consumer Brands Limited as well as the recognition of tax credits of J$416M under Jamaica's Urban Renewal (Tax Relief) Act (URA). Under this Act companies which carry out development in areas designated under the Act for the improvement of those areas are able to receive one-third of the eligible capital expenditure in the form of tax credits. GraceKennedy Limited remains committed to Downtown Kingston, Jamaica and is investing over J$3 billion in the construction of its new corporate headquarters. The majority of this capital expenditure has been approved as eligible under the URA and as such additional tax credits will be realized by the Group in 2018.

Excluding the non-recurring gains on liquidation and acquisition, net profit would have increased by 5.0% or J$207.41 million as shown in the table below.

	2017 $'000	2016 $'000	Change $'000	Change %
Net Profit After Tax, as reported One-off items (after-tax):	4,772,100	4,534,862	237,238	5.2%
- Non-recurring gains on liquidation of non-operating subsidiaries (after tax)	36,558	425,193		
Net Profit After Tax, excluding non-recurring liquidation gains	4,735,542	4,109,669	625,873	15.2%
- Non-recurring gains on acquisition of subsidiary	418,460	-		
Net Profit After Tax, excluding non-recurring gains	4,317,082	4,109,669	207,413	5.0%

FINANCIAL HIGHLIGHTS:

- Group Revenue for 2017 was J$92.48 billion, representing an increase of 4.8% or J$4.21 billion over 2016 (J$88.27 billion).
- Net profit attributable to the shareholders of the Company was J$4.12 billion for 2017 compared with J$4.00 billion for 2016. Earnings per share was J$4.15 in 2017 compared with J$4.04 in 2016, a 2.7% increase.
- Shareholders' equity increased by 7.5% or J$3.16 billion moving from J$42.06 billion in 2016 to J$45.22 billion in 2017.
- Total assets grew by 2.8% or J$3.51 billion from J$126.48 billion in 2016 to J$129.99 billion in 2017.
- Dividends totaling J$1.12 billion or J$1.13 per share were paid in 2017 compared with J$1.01 billion or J$1.02 per share in 2016, an increase of 11.0%.
- At the end of 2017, the GraceKennedy stock price closed at $43.84. This represented an 8.8% increase over prior year.

The Food Trading segment grew in both revenue and profitability when compared to 2016.

Our Foods business in Jamaica showed growth in both revenue and profit, despite being impacted by the temporary ban on corned beef from Brazil during the first half of 2017. Growth was achieved through strong performance from other key products such as Grace vienna sausages, mackerel and frankfurters, as well as new product innovations. Our objective of increasing our share of the retail supermarket space was supported by our ongoing renovation of our Hi-Lo Food Stores. The previously renovated stores located at Manor Park in St. Andrew and Fairview in St James experienced growth in their customer numbers. The Hi-Lo Barbican store location in St. Andrew was negatively affected by a major road upgrading project being undertaken by the Government of Jamaica, which commenced in the fourth quarter of 2017. During 2017, GraceKennedy acquired Consumer Brands Limited, a large player in the distribution business. This acquisition brings with it the strong line of Proctor and Gamble (P&G) products and other international brands. The Consumer Brands business has now been successfully integrated into the GraceKennedy Group, and is proving to be a natural fit.

Our International Foods companies, while showing overall improved revenue growth, were impacted by the performance of Grace Foods UK which experienced a decline in both revenue and profit. The Company was affected by lower sales from the Grace-Owned "Nurishment" branded nutritionally enriched milk drink. Sales of Nurishment are expected to grow in the coming months with investments in the brand for new promotional activities. GraceKennedy Foods (USA) LLC, experienced growth over 2016, driven by the Grace and La Fe brands. Grace Foods Canada Inc. was successful in establishing a relationship with Costco, one of the largest warehouse clubs in North America, while other listings in Canada continue to show good growth prospects. Growth within the North American market, is a key strategic objective for the Group, and we are positive that through further investment and focus this will continue to be realized.

> *The GraceKennedy Financial Group's focus on expanding financial inclusion, increasing use of technology and delivering innovative and convenient solutions to customers' needs was the key driving force for our financial businesses during 2017. To enhance this focus, the GK ONE initiative, launched on November 10, 2017, allows customers to access a range of banking, insurance, bill payment, remittance, investment and cambio services at select locations islandwide.*

Our Insurance segment reported flat revenue and a reduction in profit when compared to 2016. Profit was primarily impacted by increased claims activity from Caribbean territories that were affected by destructive Hurricanes Irma and Maria in September 2017. Consistent with our approach to Enterprise Risk Management, and through our robust reinsurance programme, GK General Insurance is satisfying their customers' claims while lessening the impact of these losses on our bottom line.

The Banking and Investments segment achieved growth in both revenue and profit. First Global Bank (FGB) showed an increase in revenue and profit when compared to 2016. The Company's objective of being the #1 bank in terms of customer convenience guided the Company's decisions during 2017. During December 2017 FGB received a license to pursue Agent Banking Activities and will actively roll-out this new business model as part of our financial inclusion strategy in 2018. In order to expand our banking footprint from our current branch network, FGB launched the first two of its "Money Link" locations in August 2017. These "Money Link" locations will be a system of mini integrated branches located within existing infrastructure occupied by other companies within the GraceKennedy Group. Adding to the strength of the FGB team, we welcomed career banker Mr. Peter Moses who assumed the role of Chairman effective September 19, 2017.

The Money Services segment reported flat revenue and moderate growth in profit relative to 2016. The performance of the segment was affected by decreased transaction volumes from our Jamaican remittance operations, GraceKennedy Remittance Services (GKRS). This was offset by the strong performance of our Trinidad and Guyana money services operations. GraceKennedy Money Services (GKMS) and Western Union temporarily suspended money transfer services in some agent locations in Jamaica during 2017 in an ongoing effort to increase oversight for the protection of our customers while strengthening compliance efforts throughout our network of agencies. By the end of 2017 GKRS was able to reopen 8 of the 10 locations whose services had been suspended. While these suspensions have had a negative impact on profitability in the short term, we are determined to maintain a strong and efficient compliance model which will protect the reputation of financial services in the Caribbean region and also serve as a competitive advantage for our remittance business.

On December 11, 2017 the Judicial Committee of The Privy Council handed down its judgment in the matter of Paymaster Jamaica Limited's claim against GraceKennedy Remittance Services Limited (GKRS) which was commenced in 2000. The Privy Council ruled unanimously in favour of GKRS, allowing our appeal and dismissing Paymaster's counter appeal. This decision reaffirms that we acted in accordance with our core values of honesty, integrity and trust.

The following senior management changes within the GraceKennedy Group took effect on January 1, 2018. Andrea Coy was appointed CEO of GK Foods International, a position previously held by Ryan Mack, who assumed the role of CEO of the GK Foods Domestic business. Also, Steven Whittingham was appointed to the Company's Executive Committee and continues in his roles as Chief Investment Officer for the GraceKennedy Group and Managing Director of GK Capital Management Limited and GK Investments Limited.

GraceKennedy was awarded the 2016 PSOJ/JSE Corporate Governance Award at the Jamaica Stock Exchange's Best Practices Awards in 2017.

This award recognizes companies that demonstrate and practice outstanding corporate governance. We are honoured to have received this recognition and remain committed to complying with best practises that balance the interest of the Company, our numerous stakeholders and the wider society. We were also recognized as 1st Runner Up in the Corporate Disclosure & Investor Relations category. This award recognizes companies that maintain good investor relations with the wider investing public and make timely and accurate reports and announcements to the Jamaica Stock Exchange.

Through our Grace & Staff and GraceKennedy Foundations we continue to contribute proudly and actively to the development of our communities in the areas of education, sports and the environment. During 2017, through our two foundations we were able to provide scholarship and bursary support to over 480 students at the tertiary and secondary school levels.

We have launched 2018 under the theme "Delivering Consumer and Shareholder Value through Innovative Solutions". We believe that in order for GraceKennedy to remain innovative and successful in this ever changing environment we must be forward-looking to ensure an agile, efficient and high-performing corporate structure. We have made significant strides in our goal of becoming a Global Consumer Group and are confident in our strategies for achieving this.

> *We thank our shareholders, employees and customers for their continued commitment and support. We are committed to our core values of Honesty, Integrity and Trust as our platform for continued growth.*

Gordon V. Shirley, OJ
Chairman

Donald G. Wehby, CD
Group Chief Executive Officer

March 01, 2018

SECTION 05

Management Discussion and Analysis.

2020 Campaign Map.

2017

2018

2019

2020

Jamaican Trading Group

Performance Driven Organisation

- Develop a culture of Accountability and Execution
- Align all employees with the Strategy and Vision
- Build expertise to support global expansion
- Implement effective feedback and reward system aligned with strategy and performance
- Develop effective leaders and staff at all levels through professional development
- Create an environment conducive to innovation

Consumer Centricity & Innovation

- Transform the Company into a marketing-led organisation
- Develop global market research capabilities
- Design solutions rooted in consumer needs, attitudes and behaviors
- Seek cross-product synergies and technological solutions
- Ensure high levels of consumer satisfaction
- Create digital platform for the Group

Growth & Sustainability

- Grow GraceKennedy-owned brands
- Grow our international food business
- Develop strategic partnerships
- Mobilise financial resources
- Grow financial and money services domestically and regionally

Operational Excellence

- Develop project management skills within the Group
- Leverage IT platforms and improve efficiency
- Manage Capital effectively
- Enhance Risk Management and internal controls
- Standardise Operating Procedures across the Group
- Optimise Group structure
- Target International benchmarking for operational excellence

Globally Rationalise Operations

- Optimise IT platforms
- Internationalise policies and procedures to ensure compliance in all jurisdictions

Global Consumer Group

Caribbean Financial Services Group

Rebalance Jamaica vs International

- Internationalise systems
- Expand Globally Mobile Human Resource Pool

Disclosures.

The management of GraceKennedy Limited is responsible for the integrity and objectivity of the information contained in the Management Discussion and Analysis (MD&A). The information presented herein has been reviewed by the Group's Audit Committee on behalf of the Board. Management believes that this information represents an objective review of the Group's past performance and future prospects.

All monetary figures are presented in Jamaican dollars, unless otherwise stated.

Who We Are.

GraceKennedy Limited is a publicly listed company on the Stock Exchanges of Jamaica and the Republic of Trinidad & Tobago. The Company was founded on 14 February 1922, and is the parent company of a Group of subsidiaries operating mainly in the food and financial services industries. The Group's operations are structured into two areas:

FOOD TRADING

This comprises the business of food manufacturing through our own factories, as well as through external suppliers; the distribution of Grace and Grace-owned brands in Jamaica and internationally; and the operation of retail outlets through our Hi-Lo Supermarket chain in Jamaica. The Group also manufactures and distributes third party brands in Jamaica and internationally. The Food Trading segment operates primarily in Jamaica, the Caribbean, Central America, North America, Africa, the United Kingdom, and several European countries.

FINANCIAL SERVICES

This comprises our commercial banking, general insurance, insurance brokerage, investment banking, remittance, cambio and payment services businesses.

Our financial services subsidiaries presently operate within the English-speaking Caribbean.

Our Vision.

"To be a Global Consumer Group, delivering long-term consumer and shareholder value through brand building and innovative solutions in food and financial services, provided by highly skilled and motivated people."

Our Vision embodies the focus of GraceKennedy's team, grounded in our firm commitment to our stakeholders:

OUR STAFF: We will promote teamwork, mutual respect, care, open communication, empowerment and accountability.

OUR CUSTOMERS AND CONSUMERS: We will maintain high product and service standards as we honour our commitments.

OUR SHAREHOLDERS: We will provide our shareholders with competitive rates of return over the medium-to long-term.

OUR COMMUNITIES: We will be a socially responsible, caring and environmentally conscious corporate citizen.

OUR CREED: We will operate with Honesty, Integrity and Trust.

Our Mission.

"To deliver the taste and experience of Jamaican and other international foods to the world, and leading financial services to our region."

Performance Measurement.

Our Executive Committee utilises the Balanced Scorecard tool to evaluate and monitor Group performance. The Balanced Scorecard, as applied in GraceKennedy, focuses on Learning and Growth, Internal Processes, Customer, and Financial Objectives.

- **LEARNING AND GROWTH:** Our team is critical to our success. This segment of the Balanced Scorecard monitors the relationship with our team. We, therefore, monitor retention and development of the team, as well as staff engagement. To better gather insights into what is important to our employees, we carried out our first employee engagement survey during 2017. This will be conducted annually and is expected to be a strengthening of our previous employee satisfaction survey.
- **INTERNAL PROCESSES:** The focus of this aspect of our scorecard is to increase the efficiency of our internal business processes and strengthen risk management within the Group.
- **CUSTOMER:** Critical to our strategy, is our focus on the customer and consumer. This is central to the delivery of our products and services, and as such, the Group consistently monitors customer experience and service levels to ensure that we anticipate the needs of our customers and consumers, delighting them in all segments of our business.
- **FINANCIAL OBJECTIVES:** The focus of this aspect of our scorecard is to assess how well the Company's strategy, implementation, and execution have maximised shareholder value. The key metrics evaluated, relate to our revenue strategy and productivity levels. The Group carefully monitors revenue earned through existing and new markets, our ability to translate revenue to profit, and our allocation of capital. These measures are in keeping with the Group's long-term vision to provide investors with a competitive return on equity.

Key Expectations for 2017 – How We Did.

During 2017, we embarked on several strategic initiatives aimed at strengthening our market position and improving efficiencies. A summary of our performance is below.

2017 REPORT CARD

GOALS	STATUS
Accelerating the introduction of digital products/channels to ensure that our customers can have seamless user experiences	Significant investments were made in technology aimed at enhancing the customer's overall experience. GK MPay, which allows users to conduct various transactions using their mobile phones, was launched with an initial focus on engaging customers and building awareness in the market. First Global Bank increased the number of intelligent teller machines available for its clients' use in keeping with its goal to be number one in convenience. During 2017, the Group did significant work to build the foundation for digital products and channels to be released during 2018.
Improving operational efficiency through the use of technology	In 2017, First Global Bank optimised Flexcube, its core banking software, in order to automate more services and improve productivity and service delivery. Hi-Lo Food Stores, our retail supermarket chain of stores in Jamaica, invested in an Enterprise Resource Planning (ERP) software which streamlined processes and strengthened operational efficiency throughout all the stores. Elsewhere in our Food Trading segment, we continued the rollout of Electronic Data Interchange (EDI) with large customers in North America and the United Kingdom, which automates the ordering, invoicing and payment processes.
Strengthening the Domestic Food operations through increased customer engagement, improvements to the distribution centre, and investment in our retail stores	The domestic food operations improved brand affinity with our younger consumers through the "Go Hard" promotional campaign, and event sponsorships such as the ISSA/GraceKennedy Boys' and Girls' Athletic Championships (Champs). Hi-Lo remains focused on providing its customers with a great shopping experience, focusing on delivering on its FS5 promise to its customers–Fresh Stores, Full Shelves, Frequent Savings, Fast Service and Friendly Smiles. During 2017, we completed the renovation of the Hi-Lo Portmore, St Catherine location. The distribution centre, which is located in Spanish Town, St Catherine, is to be expanded during 2018 to accommodate the growth in our domestic food business.

2017 REPORT CARD

GOALS	STATUS
Executing our financial inclusion strategy through agency banking channels to target the unbanked and underbanked	The GraceKennedy Financial Group's focus on expanding financial inclusion, increasing use of technology and delivering innovative and convenient solutions to meet the needs of our customers was the key driving force for our financial businesses during 2017. To enhance this focus, the GK ONE initiative was launched on 10 November 2017. This initiative will allow customers to conduct banking, insurance, bill payment, remittance, investments and cambio services at selected locations islandwide. During December 2017, First Global Bank (FGB) received its licence to pursue Agent Banking Activities from the Bank of Jamaica, and will actively roll-out this agency banking model in 2018.
Extending our financial services reach in the Caribbean through entry into new countries	During 2017, our rebranded Eastern Caribbean operation, GK Insurance Eastern Caribbean Limited, was launched in St Vincent and the Grenadines and is licensed to operate in two additional Eastern Caribbean islands, Antigua and Grenada.
Optimising our distribution channel in the United States through increased investments in warehousing and logistics, and a focus on building brand equity for the La Fe and Grace brands	In 2017, we utilised third-party logistics operators to assist in optimising the distribution network across the business, and continued to work closely with them to achieve improved efficiencies in that regard. We continue to assess the best strategic options to optimise our warehouse operations going forward and expect to make great strides in this regard in 2018/2019. The re-launch of the La Fe Brand is now slated for 2018, in addition to the launch of a global campaign for the Grace Brand, which has already started.
Pursuing growth opportunities in Europe and building on already established platforms in the region	Europe reported 27% growth over 2016. The key markets of operations are Germany, Holland, France and Italy. Plans are in place for 2018 to make Spain a priority market within Europe.
Strengthening the Group's talent pool by identifying, planning, and developing skill-sets to support global expansion	Greater emphasis has been placed on cross-company and cross-border assignments for overseas exposure and cultural immersion. We have leveraged and dedicated more resources to three of GraceKennedy's internal development programmes: the Diamonds Programme, Senior Leadership Development Programme, and Supervisory Development Programme.

2017 Financial Performance.

Revenue grew by 4.8% to total $92.48 billion for the year. Pre-tax profit showed a decline of 4.7% which was primarily due to hurricane-related claims on our Insurance segment, lower non-operating gains and reduced foreign exchange gains. The performance of the Insurance segment was off-set by the Banking & Investments and Food Trading segments. Net Profit for the Group increased by 5.2% due to the recognition of tax credits under Jamaica's Urban Renewal (Tax Relief) Act related to the construction of the Group's Corporate Headquarters in downtown Kingston. Non-controlling interest for the year increased by 23.7%, representing a change from $530.32 million in 2016 to $656.00 million in 2017, while profit attributable to shareholders increased from $4.00 billion to $4.12 billion, representing a 2.8% increase.

Total assets grew by 2.8% or $3.51 billion, moving from $126.48 billion in 2016 to $129.99 billion in 2017. During the year, the Group's liabilities remained relatively flat while the capital base grew by 8.0%. Capital comprised shareholders' equity of $45.22 billion and non-controlling interest of $1.79 billion. Return on equity for 2017 was 9.4% compared to 10.0% for 2016, while earnings per share increased from $4.04 to $4.15.

How We Earned

The Group's revenue growth was driven by increases in revenue in all segments, except Money Services, which showed a marginal decline. The Banking & Investments segment reported the highest growth rate of 7.1%, followed by Food Trading and Insurance, which showed growth rates of 5.5% and 0.2% respectively. Food Trading continues to be the dominant contributor to revenue accounting for 78.5% of total Group revenue.

Other income decreased by 12.4% during the year, due to lower non-operating gains and reduced foreign exchange gains.

Statement of Financial Position Review

During 2017, the increase in the Group's asset base was mainly attributable to an increase in receivables, primarily due to reinsurance recoverables related to Hurricanes Irma and Maria, and the growth in the Food Trading segment relating to the Consumer Brands acquisition. Other asset lines, including loans receivables and fixed assets, showed an increase primarily due to the growth of First Global Bank's loan portfolio, the construction of the Corporate Headquarters, and the renovation of Hi-Lo stores respectively.

The Group increased its use of debt in 2017, resulting in a debt-to-equity ratio of 36.5%, compared with 31.5% in 2016. This increase in debt is due to the increased use of external funding for the Banking & Investments segment, as well as borrowings, to finance the construction of our Corporate Headquarters. First Global Bank (FGB) increased its customer deposit base and reduced its use of securities sold under repurchase agreements. Bank and other loans increased by 24.7% to total $16.52 billion, while deposits grew by 9.4% to total $33.53 billion.

The Group's equity base increased by 7.5% during the year to total $45.22 billion in 2017, compared with $42.06 billion in 2016. The capital growth for the Group in 2017, was mainly driven by an increase in retained earnings of 9.5%. Non-controlling interest increased by 21.3% to total $1.79 billion in 2017, due to improved profitability of the GK Remittance Services Group, in which GraceKennedy has a 75% shareholding.

Shareholder Return

GraceKennedy's stock price recorded an 8.8% increase on the Jamaica Stock Exchange (JSE) during 2017, closing at $43.84 on 31 December 2017 ($40.29 on 31 December 2016). The Group also increased its dividend payment during the period by 11.0% with a dividend pay-out of over $1.12 billion.

The stock as at 31 December 2017, traded at a price-earnings multiple of 10.56 times on the Jamaica Stock Exchange (JSE), an increase over the 2016 multiple of 9.97 times. The stock as at 31 December 2017, traded at 96% of its book value per share of $45.56, compared with a price-to-book ratio of 95% in 2016.

Segment Analysis

The GraceKennedy Group earns in four major segments: Food Trading, Banking & Investments, Insurance, and Money Services. All segments, with the exception of Money Services, showed an increase in revenue. All segments, with the exception of Insurance, showed an increase in pre-tax profit. The summary segment performance is as follows:

i. Our Food Trading segment increased by 16.9% in pre-tax profit due to growth in revenue and improved operating margins.

ii. The Banking & Investments segment experienced an increase of 78.7% in pre-tax profit due primarily to growth in the loan portfolio, higher investment income and gains on securities sold, as well as a reduction in provision for credit losses.

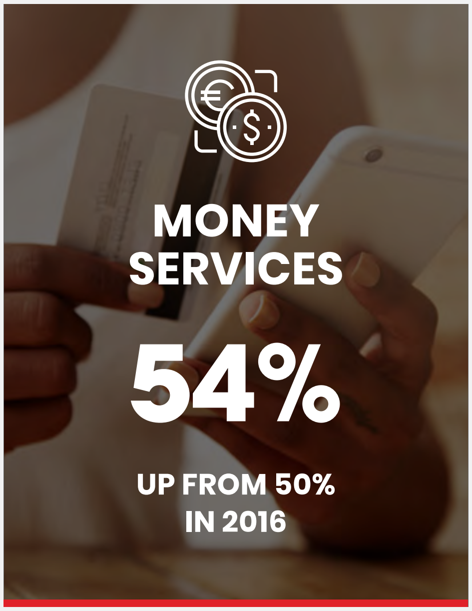
iii. The Insurance segment experienced a reduction of 28.2% in pre-tax profit due to increased claims following the passage of two catastrophic hurricanes, Irma and Maria, in the Caribbean region.

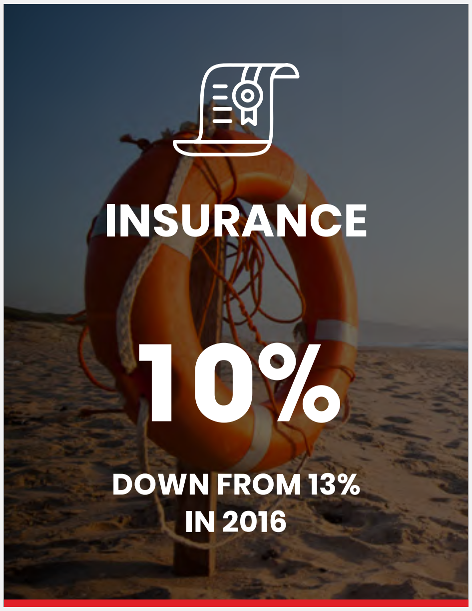
iv. The Money Services segment reported a 3.4% growth in pre-tax profit driven by growth in inbound transactions and foreign exchange gains in GraceKennedy (Trinidad and Tobago) Limited and GraceKennedy Remittance Services (Guyana) Limited. Our remittance business in Jamaica was however, adversely impacted by the temporary suspension of operations of some agent locations as a consequence of increased compliance measures and monitoring.

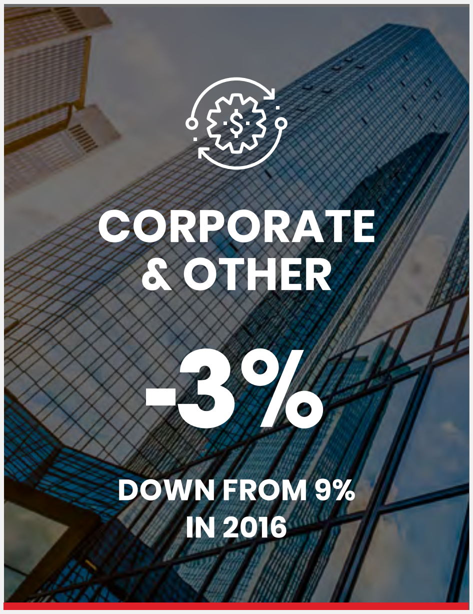
Overall, the Food Trading segment generated the largest share of revenue, accounting for 78.5%, compared with 78.0% in 2016. Pre-tax profit was earned in the following proportions:

- Money Services : 54%, up from 50% in 2016
- Food Trading : 27%, up from 22% in 2016
- Insurance : 10%, down from 13% in 2016
- Banking & Investments : 12%, up from 6% in 2016
- Corporate and other : -3%, down from 9% in 2016

SEGMENT ANALYSIS: SHARE OF PRE-TAX PROFIT







Food Trading Segment.

The Food Trading segment experienced improvement in both revenue and pre-tax profit. Revenue was primarily driven by our Jamaican, Canadian, and United States food distribution businesses and Jamaican retail business. Our domestic food business was the major source of profitability for this segment.

JAMAICA

We currently operate in the Jamaican market through our distribution and retail business units namely Grace Foods and Services, World Brands Services, and Consumer Brands Limited, as well as our supermarket chain Hi-Lo Foods Store. These business units are supported by our five factories located across Jamaica, including Grace Food Processors (Canning), Grace Food Processors, National Processors, and Grace Agro-Processors, as well as Dairy Industries (Jamaica) Limited, which is an associated company.

Our total Jamaican Food Trading subsidiaries reported growth in both revenue and pre-tax profit for 2017. Sales of our core Grace products, including Vienna Sausages, Coconut Milk Powder, Frankfurters, Ketchup and Mackerel, showed an increase in case volumes and were the key drivers of revenue growth. We maintained market leadership in the majority of our core product markets. Revenue from our Grace Corned Beef was negatively affected by the temporary ban on corned beef from Brazil that took place during the first half of 2017. This temporary ban led to an over J$500 million reduction in sales of our Grace Corned Beef. The health and safety of consumers remain of primary importance to us. We have always, and will continue to ensure that suppliers conform to internationally recognised food safety standards, including the British Retail Consortium Standard (BRC). Our value brand, Caribbean Choice, did well during the year as price-sensitive consumers continue to see the value in this brand. New products that were launched in 2017, included Grace Food Drink and Grace Fully Cooked Bone-In Picnic Ham.

World Brands Services (WBS) recorded a decline in revenue, but an increase in pre-tax profit when compared to 2016. This decline in revenue was mainly attributable to our discontinuing the SM Jaleel portfolio of beverages early in 2017. During the year, WBS became the sole distributor for Lucozade and received awards for Top Sales Growth Performer and Best Local Market Implementer from Schweppes International Limited, the manufacturer of Lucozade. Effective promotional activities throughout the year, as well as strong relationships with our principals and customers, have resulted in the growth of some of our principal brands.

> *Our newly acquired distribution subsidiary, Consumer Brands Limited, contributed to both improved revenue and profitability performance for the Food Trading segment. The Proctor & Gamble line of products is a natural fit with our existing principal brands and we expect to see continued strong growth in this portfolio for 2018.*

Hi-Lo Food Stores continued to reap the benefits of the renovation exercise with revenue growth being strongly supported by our renovated Fairview, Montego Bay location. The renovation of our Portmore location during 2017, negatively impacted sales for that location. However, since the completion of the renovation, we have received positive feedback from our customers and continue to see improvement in sales. Our newly renovated Barbican store in St. Andrew, was affected by major road works which commenced in the fourth quarter of 2017, and is expected to continue into 2018. Our renovated stores have created a more appealing and comfortable environment for our shoppers, and we have recorded an increase in customer count from these locations. Our focus on fresh produce and meats continues to be our competitive advantage. We will remain focused on the renovation process for the remaining stores with the goal of becoming the number one supermarket chain in Jamaica.

Our Jamaican manufacturing division showed an increase in both revenue and pre-tax profit. Strong demand for our products, both in Jamaica and internationally, contributed to the positive performance. Grace Vienna Sausages and 'This is Really Great!' Yogurt continue to be strong performers with sales surpassing that of 2016. The successful hedging in the world raw material market positively contributed to the manufacturing division's performance by allowing our factories to remain price competitive. During the year, we acquired a plant in Denbigh, Clarendon, which is expected to open up new opportunities in agro-processing and exports. The factories remain focused on maintaining and improving their international certification for food safety management, investing in upgrading their facilities, as well as improving efficiency.

INTERNATIONAL MARKETS

The international Food Trading subsidiaries showed mixed results with our operations in the United States and Canada showing improved performance over 2016, whereas our operation in the United Kingdom, Grace Foods UK, showed a reduction in profitability. Significant strides were made in 2017, in terms of utilizing a more unified approach to brand growth and development across the Group. We believe this will be valuable as we continue to manage a portfolio of global brands across multiple markets with some of our notable brands, specifically: Grace, Dunn's River, Nurishment, Aloe, Encona, La Fe and Caribbean Choice.

Grace Foods (USA) LLC experienced growth in both the Grace and La Fe brands, and other principal brands. Sales of our Grace patties, which were introduced during the year; coconut products; and the re-imaged Grace Tropical Rhythms; led the Grace-owned brand category growth. Growth in principal brands was led by the introduction of Yaucono, a premier Puerto Rican coffee brand, across the subsidiary's network and the expansion of sales of Power Malt. The subsidiary continues to see an expansion in chain stores sales with an increased number of listings in Walmart, Winn Dixie and Publix. Creating and maintaining strong and lasting ties with the Hispanic and Caribbean communities is a key focus area for this subsidiary as we seek to be a brand of choice for these expanding market segments.

GraceKennedy (Ontario) Inc., was renamed Grace Foods Canada Inc. during 2017. The subsidiary had a good year, recording growth in both revenue and pre-tax profit. Sales to key chains, including Walmart and Loblaws, contributed positively to this outcome as did the effective implementation of key strategic initiatives such as the subsidiary's Western Canada expansion, and strengthened focus on coconut products. Our role as Walmart's Category Advisor - Caribbean and Ethnic, has provided a great opportunity to strengthen and expand our relationship with Walmart. The subsidiary performed well despite supply challenges with Corned Beef. The listings secured in Costco business centre continues to show good growth prospects, as well as the investment in the third-party logistics warehouse in Western Canada, which has already resulted in new listings within key retailer, Sobeys West.

Our Food operations in the United Kingdom experienced some challenges during 2017. The subsidiary's key product, our Grace-owned, Nurishment brand of nutritionally enriched milk, experienced a reduction in sales. We have strengthened the marketing support behind this brand and expect to see a recovery in sales for this product during 2018. During 2017, the Encona brand performed well with new listings and the Encona Limited Edition Carolina Reaper Chilli Sauce continuing to drive growth. The Dunn's River Brand also had strong performance, driven by its expanded seasonings range. Grace Aloe retained its number one position in the market, despite competitive pressures. Our operations in Europe recorded growth over 2016. In light of the expected changes from Brexit, growth in Europe through the establishment of our own operations within the European Union, remains a key objective which we expect to realise in 2018.

GK Ghana's performance during 2017 did not meet our expectations. Our operation in Ghana remains strategically important and we are relooking at the business model to determine the most efficient structure for our operations.

GraceKennedy (Belize) Limited experienced a decline in both revenue and pre-tax profit. Newly introduced products such as Roma Hot Chocolate and Grace Pasta are showing great potential for 2018.

GF LACA, our division responsible for food distribution in the Caribbean and Latin America, delivered marginal growth in both revenue and pre-tax profit with revenue being positively impacted by sales to Guatemala, a new market that we entered during 2017. The division was affected by the temporary ban on corned beef imported from Brazil, which impacted sales in several of our markets. Since the lifting of the ban, we are seeing a recovery in these markets. In addition to this, our markets in St Maarten, British Virgin Islands and Dominica were significantly affected by the passage of Hurricanes Irma and Maria. Following the passage of Hurricanes Irma and Maria, the GraceKennedy Group responded immediately to appeals through the donation of food items and cash donations to the Western Union Foundation.

> *The business continued to seek growth across the Caribbean and Latin America.*

As a Group, we have created a healthy food roadmap which will focus on providing alternatives with reduced sugar and sodium. This will expand our healthy alternative product portfolio, which already includes Grace Low Sodium Corned Beef and Grace No MSG Cock Soup mix. Our primary focus is to meet the needs of our consumers, wherever they may be, by providing convenient food solutions and healthy food alternatives.

Financial Services Segments.

INSURANCE, BANKING & INVESTMENTS AND MONEY SERVICES

The Financial Services segments showed growth in both revenue and pre-tax profit. Pre-tax profit for all three segments showed an overall increase of 4.3%, moving from $4.24 billion in 2016, to $4.42 billion in 2017. This increase in profit was driven by the performance of both the Money Services and Banking & Investments segments. Revenue showed an overall increase of 2.4% over 2016. The Money Services segment reported a decline in revenue, while the Insurance segment showed a decline in pre-tax profit.

INSURANCE

The Insurance segment reported an increase in revenue and a decline in pre-tax profit over 2016. During the latter half of 2017, two Category 5 hurricanes swept across portions of the Eastern Caribbean, causing significant damage to several countries, including the Turks and Caicos and Dominica, where we operate. This impacted the profit performance of our underwriting business which operates in both these countries. GK General Insurance Company Limited recorded double-digit growth in its motor business and successfully launched a new micro-insurance product, RemitCare. RemitCare offers truly innovative coverage, and is a personal accident insurance policy which provides remittance payments to a receiver in the event that the sender sustains any bodily injuries caused by a covered accident, which lead to either disability or death. The product was designed in response to the fact that remittance is a major source of income for many Jamaicans. The product is available through GraceKennedy Payment Services Limited.

In keeping with the segment's rebranding strategy, our Eastern Caribbean operation, EC Global, was renamed GK Insurance Eastern Caribbean Limited (GKI-EC). GKI-EC recorded growth in pre-tax profit, driven by the performance of its motor portfolio. The subsidiary also officially launched operations in St Vincent and the Grenadines, and is licensed to operate in two additional Eastern Caribbean islands, Antigua and Grenada.

Allied Insurance Brokers Limited recorded a decline in pre-tax profit primarily due to reduced commission income.

BANKING & INVESTMENTS

The Banking & Investments segment achieved growth in revenue and pre-tax profit over prior year. First Global Bank (FGB) reported growth in revenue over prior year, primarily due to higher net interest income stemming from the increase in size of the loan portfolio and higher investment income. FGB further enhanced its product portfolio by launching its mortgage product to the public during the year. The Liguanea branch is one of our new fully automated model of branches equipped with Video Teller Machines (VTM) and Automated Teller Machines (ATM). ATM and VTM transactions increased by 130% and 20% respectively over 2016. Profitability was further driven by strong loan delinquency management. FGB continued its thrust to safeguard cardholders from counterfeit fraud by being one of the first banks in Jamaica to introduce EMV (Chip) cards for both its debit and credit products. We also introduced a Chip and PIN solution for our debit Visa product, and a Chip and Signature solution for our credit products (Classic, Gold, and Platinum). In 2017, FGB continued its network expansion strategy with the opening of three locations: one full service branch in Portmore, outfitted with a video teller machine and an intelligent deposit ATM; and two mini-branch satellite locations, branded as First Global Money Link in Santa Cruz, St Elizabeth and Cross Roads, St. Andrew. First Global Money Link is FGB's financial inclusion initiative, designed for underbanked Jamaicans. We welcomed Peter Moses, who has been appointed Chairman of the Board of FGB. Mr Moses is a well-known and highly respected career banker, who served for many years as Citibank's Country Manager in Jamaica.

For the year 2017, GK Capital Management and GK Investments reported a combined increase in revenue, but a decline in pre-tax profit. The subsidiaries executed well on their strategic focus of expanding the existing core business, while introducing new revenue lines. GK Investments led the structuring, arranging and establishment of a facility at the Central Sorting Office, which involved the renovation and refurbishment of approximately 60,000 square feet for leasing to a major Business Process Outsourcing provider based in the United States. Within the energy sector, GK Capital Management is leading the financing and development of a cogeneration natural gas power plant for The University of the West Indies, Mona Campus, which will generate significant energy savings annually for the University. In 2017, GK Capital Management continued to grow both its fixed income and equities businesses. The credit portfolio grew by 79% during the year, and positively impacted revenue growth through material increases in net interest income. The equities business saw a 20% increase in revenue growth over 2016, with positive incremental contributions from stockbrokerage commissions and proprietary investments. During the second quarter of 2017, the subsidiary expanded the range of services that it offers to include institutional asset management.

MONEY SERVICES

The Money Services segment reported marginally lower revenue, but slightly higher pre-tax profit when compared to 2016. The performance of the segment was affected by decreased transaction volumes from our Jamaican remittance operations. This was offset by the strong performance of our Trinidad and Guyana money services operations. GraceKennedy Remittance Services Limited (GKRS) remained the dominant player in the Jamaican remittance market and continues to be strategically focused on protecting its market-leader position, increasing market share, identifying opportunities for expansion, and enhancing delivery of services through digitisation. GraceKennedy Money Services (GKMS) received approval to carry-out remittance operations in Bahamas in 2017. We commenced operation in Bahamas in January 2018. GKMS and Western Union temporarily suspended money transfer services in some agent locations in Jamaica during 2017, in an ongoing effort to increase oversight for the protection of our customers while strengthening compliance efforts throughout our network of agencies. By the end of 2017, GKRS was able to reopen eight of the ten locations where services had been suspended. In December 2016, the Bank of Jamaica (BOJ) approved GKMS' mobile wallet application. The product, GK MPay, was launched to the general public in February 2017, providing the convenience for Jamaicans to carry out payments and other money services on their mobile phones. While this product has not met our expectations to date, we will be enhancing its product offering to better meet the total needs of our customers.

On 11 December 2017, the Judicial Committee of The Privy Council handed down its judgment in the matter of Paymaster Jamaica Limited's claim against GraceKennedy Remittance Services Limited (GKRS), which was commenced in 2000. The Privy Council ruled unanimously in favour of GKRS, allowing our appeal and dismissing Paymaster's counter appeal.

Our money services businesses have developed a robust programme to detect and deal with money laundering and other fraudulent schemes. These activities are a real risk to the money services industry and to our economy, and we remain vigilant in establishing strong measures and putting in place the right processes, technology and infrastructure to reduce the impact of these on our business. We remain committed to meeting all our regulatory responsibilities, following best practices and market standards in areas of accountability, transparency and business ethics.

Where We Earn.

Revenue by Geographical Area (J$ Millions)	2013	2014	2015	2016	2017	2017 % Contibution to Revenue
Jamaica	43,041	37,497	40,248	45,344	47,657	51.5%
North America	9,042	14,205	19,744	22,218	24,023	26.0%
Europe including UK	11,165	14,282	14,290	14,058	13,862	15.0%
Other Caribbean countries	3,798	4,538	5,248	6,339	6,673	7.2%
Africa	79	183	96	164	125	0.1%
Other countries	133	134	116	145	135	0.1%
Total	67,258	70,840	79,742	88,268	92,476	100%

GraceKennedy's vision of being a Global Consumer Group includes achieving 60% of our revenue outside Jamaica. For 2017, our Group generated 49% of its revenue outside Jamaica, a similar portion to that of 2016.

North America accounted for a larger share of our revenue, 26.0% in 2017 compared to 25% in 2016, as revenue increased by 8.1% for 2017 over 2016. This is due to the growth in revenue from both the Grace and the La Fe brands through GraceKennedy Foods (USA) LLC and Grace Foods Canada.

Revenue from the European (including UK) markets accounted for 15.0% of revenue in 2017, compared to 15.9% in 2016. This is primarily due to lower sales from our Grace Foods UK operations, stemming from reduced sales of our Nurishment product.

Corporate Social Responsibility.

GraceKennedy's core values are grounded in the firm commitment to be a socially responsible, caring and environmentally conscious corporate citizen. As such, GraceKennedy believes that its own success must be matched by the growth of its staff, the people of the communities in which its businesses are located, and also in the growth of its home base, Jamaica.

GraceKennedy Foundation

The GraceKennedy Foundation is one of the channels through which the Company contributes to nation building. In keeping with its mission, the Foundation focuses on contributing to national development through the areas of education and environmental stewardship.

EDUCATION

Collectively, the portfolio of projects embraces public education and discourse, tertiary and secondary level training with emphasis on the former, and early childhood education with specific project areas being: the Annual Lecture Series; scholarship and bursary programmes; funding of professorial chairs at The University of the West Indies; investment in early childhood education through the STEAM Programme, and the Birthright Programme.

The 2017 GraceKennedy lecture was delivered by Dr Michael Abrahams, obstetrician gynaecologist and comedian on 8 March 2017. Dr Abrahams took an insightful and scholarly approach to the complex subject, "Humour, Laughter and Life", identifying the benefits of laughter in promoting health and well-being. In selecting the topic for the lecture, the Foundation sought to tackle a subject that would contribute to an understanding of the coping skills of the Jamaican and Caribbean psyche in the face of rapidly escalating crime and economic hardship.

In 2017, the Foundation invested just under $20 million in scholarships to 84 students for study at the tertiary level. Additionally, the Foundation awarded 48 merit scholarships, previously known as bursaries. There were five first-time recipients of full scholarships and 13 renewals. Eighteen students received final-year scholarships, including two enrolled at the Caribbean Maritime University.

The Foundation, on 14 September 2017, awarded $1.6 million to 27 children under the Carlton Alexander Memorial Awards for the 2017/2018 academic year. High school students from Grades 7 to 11, received J$40,000 each; students in Sixth Form received $70,000 for each of their two years; and students attending tertiary-level institutions received a bursary of $100,000 each year.

The Foundation continued to fund two professorial chairs at The University of the West Indies (UWI)–the Carlton Alexander Chair in Business Management and the James S. Moss-Solomon Chair in Environmental Management in the amount of $11 million annually.

The Chairs continued to be proactive and creative in exploring appropriate solutions to address the vulnerabilities faced by the region by successfully developing and fostering partnerships locally and internationally in the areas of research, innovation and community development.

Professor Ian Boxill undertook a number of important research initiatives and analyses for both public and private sector bodies, including, the Jamaica Manufacturers' Association, the Electoral Office of Jamaica, and the Edna Manley College of the Visual and Performing Arts. The results of the recently completed study, "Towards a more sustainable tourism in the historic town of Falmouth", were presented at the United Nations World Tourism Organization (UNWTO) Conference on Sustainable Development, held in Montego Bay in November 2017.

The Foundation forged a partnership with the Dudley Grant Memorial Trust on a new early childhood education project with the objective of encouraging children between the ages of 3 and 6-years to develop an interest in science, technology, engineering, arts and mathematics (STEAM). In January 2017, a pilot project was started, involving basic and infant schools and infant departments in the community surrounding the GraceKennedy Parade Gardens STEM Centre in downtown Kingston, to train teachers and parents of young children on how to teach science in an exciting way. In preparation for their work with the children, teachers and parents attended workshops showing them how to utilize the STEM Centre effectively to assist with learning objectives, to make learning easier and more fun.

The 2017 Birthright Programme saw Menelik Graham, a freshman at Princeton University (USA); Matthew Robinson, a junior at Georgetown University (USA); Cleveland Douglas, a sophomore at Imperial College (UK); and Tianna Thomas, a junior at Brock University (Canada), visiting Jamaica between 5 July and 7 August 2017. The programme afforded these second-generation Jamaican university students internships in their chosen career paths at GraceKennedy, while also exposing them to a dynamic cultural experience through a range of activities.

ENVIRONMENT

The work of the James Moss-Solomon Snr Professor in Environmental Management Chair, Professor Dale Webber, is the Foundation's primary contribution to environmental stewardship. In 2017, the Chair continued to make critical contributions to important areas of research, innovation, teaching and outreach for the enhancement of the Jamaican environment. Much of the work of the Centre for Marine Research, which falls under the auspices of the Chair, conducted by Professor Mona Webber and her team, focused on the rehabilitation and protection of various aspects of the coastal and marine environment including the island's mangrove stock and coral reefs.

> *Since 2013, the GraceKennedy Foundation has participated in six beach clean ups and collected more than 2,200 lb of plastic and 4,153 lb of garbage in total.*

The recycling programme, which was introduced in the GraceKennedy Group in 2014, continues to engage the interest and commitment of staff. In 2017, the eight subsidiaries involved in the programme collected 21,541 lb of plastic. Since 2014, over 48,000 lb of plastics has been collected among the subsidiaries. Students at nine secondary and tertiary level educational institutions have also been trained and are coordinating recycling initiatives at their respective schools.

Grace and Staff Community Development Foundation

Through partnerships and the kind support of GraceKennedy's staff, the Foundation continues to impact thousands of lives through contributions to education and community development. The benevolence of staff extends to their volunteering with the Foundation. Over 200 staff participated in the various activities carried out during the year, supporting community development in the areas that we live and work, including the parish of Clarendon, as GraceKennedy expands within this area.

Approximately 500 tertiary and secondary students received tuition and bursary support during the year, amounting to over J$10 million. Another 750 students benefited from the Science, Technology, Engineering, and Mathematics (STEM) programmes at our Youth Development Centres.

> *Over 3,000 participants supported the ninth staging of the GraceKennedy Education Run on 9 July 2017. The event yielded a surplus of over $3 million in support of our bursary and tuition programmes.*

In contributing to other areas of empowerment, growth, and development, another J$13 million was invested in projects and donations. This allowed for further exposure of our early childhood institutions within the Central Kingston and Rae Town communities to benefit from a new STEM programme. Schools across different communities benefited from educational tours, children and community treats, and Labour Day projects, and we continued our quarterly contribution to the Rae Town Salvation Army Geriatric Clinic. Sustained support is also available to community development committees and local community based organisations. Partnerships and collaborations resulted in the successful hosting of summer camps and the growth of our STEM Club.

The Grace and Staff Community Development Foundation continues to make contributions to community dialogue and development through strategic partnerships and involvement with public organisations such as the Social Development Commission and the Planning Institute of Jamaica.

Sports

Recognising the potential of sports as a channel of opportunity, hope and development for young people, GraceKennedy has partnered with Inter-Secondary School Sports Association (ISSA) through its sponsorship of the ISSA/GraceKennedy Boys' and Girls' Athletics Championships and the ISSA/Grace All-island Schoolboy Cricket Competitions. This funding contributes to better preparation of and exposure for emerging athletes. Excelling in sports is a gateway for many young people, including those from rural and poor communities, to access scholarships, tertiary education and careers in track as well as other fields.

Risk Management and Internal Controls.

Risk is inherent in all business activities. It is not always possible or desirable to eliminate all risk in developing and executing business strategies. However, there are some risks that can and should be managed. It is therefore critical that all events, whether they are risks or opportunities, are properly identified, measured and managed, in order to minimise losses and maximise opportunities.

GraceKennedy's business activities span diverse industries, cultures and geographies, and to mitigate against inherent risks, the Group maintains a comprehensive risk management strategy inclusive of a Board-approved framework, regular reviews, policies, standards and testing. The sections below outlines GraceKennedy's risk management governance structure.

GraceKennedy Risk Management Framework

GraceKennedy Limited initiated an Enterprise-Wide Risk Management (ERM) programme in 2012. Since then, the risk management framework (RMF) has been continuously reviewed and strengthened. In its current form, it provides a common basis for the ongoing identification, assessment, management, monitoring and reporting of risk. Elements of the RMF include:

- An approved Risk Policy that governs the management of the Risk Management Framework and outlines the risk management responsibilities of the GraceKennedy Board of Directors, Audit Committee and Management;
- A Risk Appetite Statement that defines the boundaries within which the Management, Executive Committee and Board of Directors will pursue the strategic objectives of the Group. At the subsidiary level, a risk appetite statement defining the acceptable level of risk;
- A governance framework that supports formal reporting by company executives on topical risk and control issues, control self-assessments and the results of internal and external audit reports;
- Monitoring mechanisms that help provide assurance to the Audit Committee and Board about the maintenance of internal controls;
- The Risk Assessment Reporting Standard that identifies the mandatory requirements relating to risk assessment and mitigation;
- The Risk Assessment Guidelines that outline how all areas of the business must identify, evaluate, manage, monitor, and report on risks on an on-going basis;
- Tools and methodologies that allow for the nimble identification and reporting of material risks to the GraceKennedy Executive Committee, the Business Unit Audit Committees, the Group Audit Committee, and the Board of Directors;
- Self-Audit Guidelines and accompanying tool kit that has been designed to encourage the Group's subsidiaries and support units to proactively identify and act quickly on process and control weaknesses;
- Continuous risk and compliance training and reinforcement at the board, executive, and strategic business unit (SBU) levels.

Risk Management Governance

The GraceKennedy Board is ultimately accountable for determining the Group's risk profile and ensuring that management has appropriate policies and internal controls in place. The Board has charged the Group Audit Committee with the responsibility for overseeing the Risk Management Programme on its behalf, in accordance with its Terms of Reference. The Audit Committee holds six regular meetings per year and inquires of management and assurance providers about significant risks or exposures. It also assesses the steps management has taken to minimise the risks to the GraceKennedy Group. The Group operates within the Three Lines of Defence operating model, and through this, ensures adequate processes are in place across the Group to capture, measure and assess risk data.

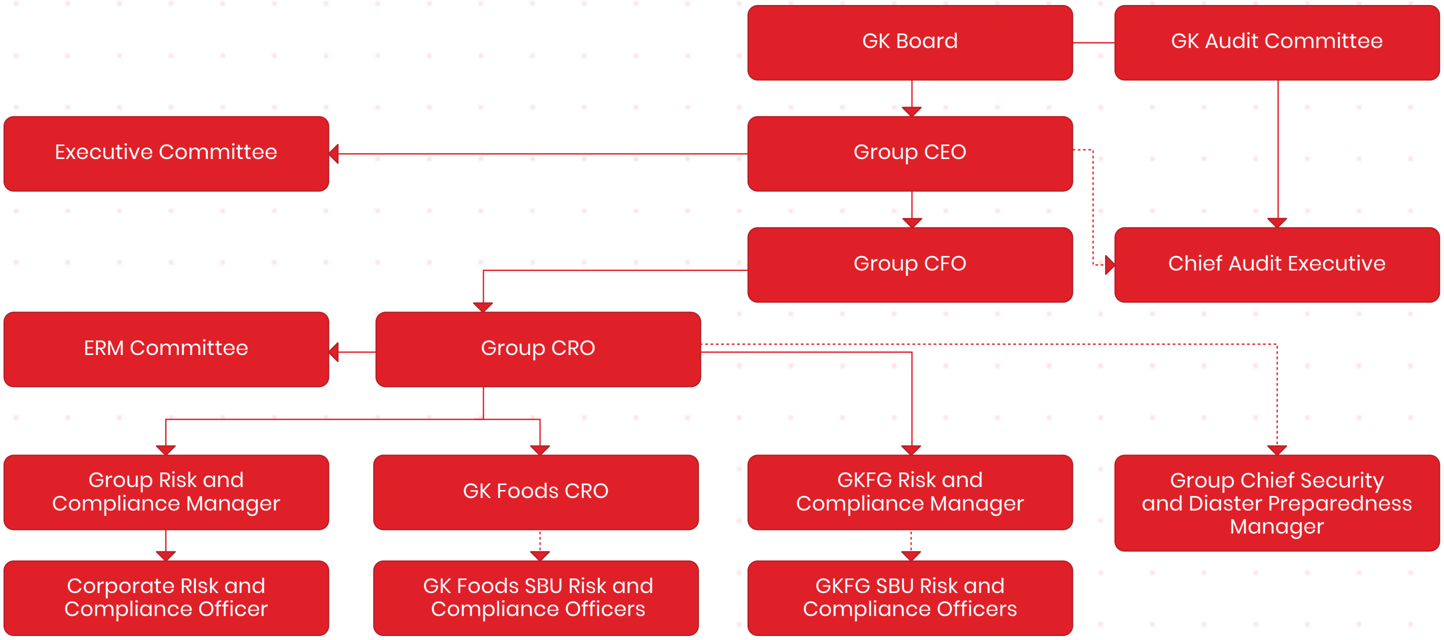
THE THREE LINES OF DEFENCE

GraceKennedy's first line of defence in managing risk is its management. Management is responsible for identifying, assessing, quantifying, reporting, and managing all risks within the lines of business. They are accountable to the Board for designing, implementing, and monitoring the risk policy and the process of risk management and integrating it into the day-to-day activities of the Group. They ensure alignment of business strategy with corporate culture, appetite, and policy.

The Group's risk management and compliance team provides the second line of defence and is responsible for creating a framework in which the management and staff can deliver on the Group's strategy while still managing the risks that accompany the opportunities available. The Enterprise Risk Management Committee is chaired by the Group Chief Risk Officer and its mandate is to provide oversight of the implementation and operation of the Group's risk management framework. The ERM Committee meets five times a year and monitors the progress of the Group's ERM programme.

The third line of defence, is the Group Internal Audit Department, which is charged with providing independent, objective assurance by delivering an objective evaluation of the risk and internal control framework of the Group. Group Internal Audit's assessment of internal controls is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Framework, and all audits are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2017 GraceKennedy Risk Structure



Milestones and Challenges in 2017

To support GraceKennedy's vision of being a Global Consumer Group by 2020, the Risk Management and Assurance functions of the Group have to be robust and flexible enough to act as an enabler in the execution of the Group's strategy. As such, in 2017, the Group actively pursued four risk management initiatives:

- Capacity-building of the Risk and Compliance team across the Group, specifically around emerging risks, effective control testing, self-audit techniques and root cause analysis;
- Engagement across the Group to proactively communicate with all members of staff about their roles and responsibilities in managing risk, and to conduct on-going training of staff in the use of the risk management tools;
- Enhancing compliance management across the Group;
- Further due diligence on possible Governance Risk and Compliance software solutions to enhance the efficacy of the Group's ERM programme.

Key Risks

GraceKennedy operates in various geographical regions across several industries. The Group monitored the following external risks quite carefully throughout 2017:

- Loss of key banking relationships in the financial services industry across the developing world and effects this loss may have on GraceKennedy;
- The rapid disruption of established industries by digitalisation (4th industrial revolution);

- The effects that terrorism, mass migration and climate change may have on supply chain management and expansion plans;
- Changing consumer needs or preferences around healthier food products and digital channels for its financial products;
- The rise of populism and changes that it brings to the political, economic and environmental landscapes in the markets in which the Group operates.

Risk assessments are done both at the Group level and by the individual subsidiaries, where keen monitoring of identified risks is undertaken. The Group operates within the financial services sector as well as food manufacturing and distribution. These areas have their own unique risk considerations. The major risks affecting the Group are strategic, operational, insurance, credit, liquidity, and market risk. These are briefly defined below:

STRATEGIC RISK

As the Group pursues its strategic objectives, both internal and external forces could prevent the achievement of these overall strategic imperatives. Risks which could impede GraceKennedy's ability to achieve its strategic objectives, are referred to as strategic risks. The management of same is critical to the enterprise-wide risk management effort, as successful strategic risk management protects shareholder value by ensuring the business has properly assessed potential pitfalls to the Group Strategy. Risk management is a valuable partner in the Group's annual strategic planning sessions, at the subsidiary, segment and Group levels, and conducts regular assessment's throughout the year to ensure continued relevance.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group's Risk Management Framework supports the mitigation of Operational Risk by establishing the standards for assessment, management, monitoring, and the provision of assurance that the risk and internal controls frameworks are operating as intended. Each subsidiary is required to implement a comprehensive Business Continuity Plan to ensure that in the event of a hazard that disrupts operations, the business will recover in the shortest possible time. The Group ensures that all employees are held accountable for managing the risk and internal control environment with regular audits by our internal audit department. Employees are also empowered to raise concerns of breaches of policies and procedures through an independent whistleblowing protocol.

INSURANCE RISK

Within the GraceKennedy Group, factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. Management maintains an appropriate balance between commercial, personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the Group's insurance contracts is, however, concentrated within Jamaica. Within the solvency requirements of the insurance regulators, an appropriate reinsurance programme has been established to reduce exposures in all classes of business thereby reducing capital exposure to an acceptable level, using very highly rated international reinsurers. The Insurance segment is also seeking to diversify risk through regional expansion.

CREDIT RISK

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the Group's receivables from customers, agents, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes.

LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Research and Treasury departments which carry out extensive research, and monitor the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

CURRENCY RISK

Currency risk refers to when the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates internationally, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar and the UK pound sterling.

Foreign exchange risk arises from future movements of the exchange rate associated with various currencies which impact commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk is managed by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The GraceKennedy Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

INTEREST RATE RISK

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed rate instruments expose the Group to fair value interest risk.

The GraceKennedy Group manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and also manages the maturities of interest bearing financial assets and liabilities. The respective Boards within the Group set limits on the level of mismatch of interest rate re-pricing that may be undertaken. As interest rates globally remain depressed, effective management of interest rate risk will be critical to maximise profits.

Group Internal Audit.

Management and directors acknowledge their overall responsibility for maintaining and establishing systems of internal control for the Group and for reviewing the effectiveness of these controls. These controls which are designed to assist in the evaluation, management and mitigation of risk to achieving business objectives provide reasonable assurance against misstatement or loss.

As an integral part of the Group's corporate governance structure, the Group Internal Audit Department and its activities are guided by its Charter as approved by GraceKennedy Limited (the Board), to whom it reports independently (through the Audit Committee) on the effectiveness of the governance structure and risk management framework and further provides independent, objective assurance by delivering an objective evaluation of the risk and internal control framework of the Group. This includes reviews of the operational and financial performance, key business, strategic and enterprise-wide risks as well as the compliance framework of the Group.

The Group's system of internal control is based on the control criteria, COSO Internal Control Framework. The system is designed to provide reasonable assurance that:

- Transactions are appropriately authorised and recorded;
- Assets are safeguarded;
- Accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted.

Group Internal Audit's assessment of internal controls is based on the standards set by COSO. This model evaluates the internal control measures adopted by management, with all audits being conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. Further, management continues to maintain these internal controls through self-audits and ongoing monitoring.

Internal Audit meets regularly with the various Subsidiary Audit Committees throughout the Group as well as with the Group Audit Committee, providing information on key risks identified during the course of the audits along with the implementation status of recommendations made. The Group Audit Committee met seven (7) times in 2017.

The Group Audit Committee oversees the Internal Audit function, reviewing Internal Audit's assessment of the adequacy and effectiveness of the Group's internal controls, compliance with legal, statutory, regulatory and other requirements, and management of risk. The Audit Committee's composition meets the independence and skill requirements of the Group's Corporate Governance Code. Control issues identified through the work of the internal and external auditors are reviewed by and discussed with the Audit Committee. The Committee, during the course of its activities, also received reports from various members of management on significant accounting and tax, legal, regulatory, risk, fraud, and whistleblowing-related matters, as well as matters pertaining to information technology and security. The Group Audit Committee Chairman also reports to the Board on all significant issues considered by the Committee.

The Terms of Reference of the Group's Audit Committee are reviewed annually by the Committee and approved by the Board. The various Audit Committees of the Group have oversight responsibility for:

i. Reliability and integrity of the accounting principles and practices, financial statements and other financial reporting;

ii. Internal audit functions of the subsidiaries and the Group;

iii. Risk management functions and processes of the subsidiaries and the Group;

iv. Qualifications, independence and performance of the external auditors of the subsidiaries;

v. System of internal control and procedures established by Management and reviewing their effectiveness;

vi. Group's compliance with legal and regulatory requirements.

GraceKennedy's commitment to internal controls, ethics and integrity are reinforced through our GraceKennedy Code of Ethics, Anti-Fraud and Whistleblowing policies, and use of our whistleblowing hotline.

SIGNIFICANT ACTIVITIES AND MILESTONES

Internal Audit continued to improve its quality and effectiveness during 2017, with a focus on continuous improvement, greater use of technology to drive efficiency and continued client support and relationship building. The activities in 2017 included on-going internal quality assurance and peer reviews, as well as programmes of continuous education and exposure for the department.

During 2017, we had the External Quality Assessment of our unit, which is undertaken every five years by Group policy; this was completed by the Institute of Internal Audit (USA) in March 2017. The Institute opined in its final report dated 31 May 2017 that our Internal Audit Department "generally conforms to the standards and definitions of internal audit." This is the highest quality rating issued by the Institute.

OTHER SIGNIFICANT ACTIVITIES OF 2017 INCLUDED INTER ALIA:

- Formulated and agreed with the Audit Committee, the audit plan, strategy and scope of work; ensuring the annual internal audit plan is designed to assist in attaining the Group's strategic objectives;
- Reviewed compliance with internal policies, procedures and standards, relevant external rules and regulations, as well as assessed the adequacy and effectiveness of the Group's internal control system;
- Conducted assurance reviews, as well as analysed and assessed certain key business processes, and made recommendations to improve their effectiveness and efficiency;
- Reviewed the adequacy and effectiveness of management's processes for risk management, internal control and governance;
- Reviewed the internal audit charter for possible modification and approval by the Audit Committee;
- Reviewed means of safeguarding the Group's assets;
- Coordinated audit efforts with those of, and provided support to the external auditors;
- Provided consultative support to management by way of reviews, preparation of thought-leadership research articles and newsletters, fraud awareness training initiatives and support provided prior to, and post major system implementations, to evaluate the extent to which adequate controls have been incorporated in the respective systems;
- Presented training opportunities and provided exposure to internal controls for business unit team members by facilitating short-term rotation opportunities to work in internal audit;
- Facilitated rotation of Internal Auditors in the business to increase business knowledge.

FOR 2018, THE FOCUS OF THE INTERNAL AUDIT DEPARTMENT CONTINUES TO BE:

- Continuous Risk Assessment, Enhancing Risk Management and Governance practices;
- Addressing Key Stakeholder Priorities;
- Optimising Internal Audit Processes and Resources;
- Leveraging Technology Efficiently.

With an overriding vision to enhance partnerships in delivering business excellence and align with the Group's strategic objectives, Group Internal Audit also provided support through various consulting engagements throughout the year which included special reviews and investigations. At the end of 2017, Group Internal Audit had conducted some 89 audits, with significant focus on Compliance, Cyber Security, Food Safety and the general control environment.

Our People.

We celebrate our people as our greatest asset and competitive advantage. In recognition of our 95th anniversary, there were special engagement initiatives for the year, including the CEO's Excellence Awards to showcase and acknowledge persons across the world in the categories of Leadership, Service and Support, Sales, and Spirit of GraceKennedy.

> *The strategic shift from assessing Employee Satisfaction to Employee Engagement has provided a clearer insight into levels of commitment and satisfaction across the Group. This move was critical, in light of the reliance on our people assets to sustain and support GraceKennedy's strategy.*

As the Group continues on its journey towards improving operating efficiencies across all business segments, we have been identifying, planning, and developing the skill sets required in tandem with leveraging talent across subsidiaries and borders. One example of this was the streamlining of our marketing capabilities under one umbrella for our foods and financial subsidiaries. Our internal development programmes are tailored to meet the needs of our subsidiaries. Our Diamonds Programme, which predominantly targets the millennial generation, was launched in 2016. Participants of the inaugural cohort had the opportunity to make presentations and recommendations to the Executive Committee at the start of 2017. We are proud of this programme and how it develops the thoughts and minds of our candidates for succession management. The Supervisory Development Programme (SDP), which provides training to employees who are being groomed to undertake supervisory responsibilities, has highlighted impeccable innovation within the Group. Participants of the Senior Leadership Development Programme (SLDP) demonstrate the highest advancement rates in the Group at 78%, advancing to levels up to, and including, Business Unit Heads. One of the SLDP projects has formed a part of the Group's Digitalisation Strategy, which will support cross-selling and thereby strengthen our competitive advantage.

> *We welcomed 92 new team members from the acquisition of Consumer Brands in September 2017.*

Future Outlook.

Certain statements contained in the Management Discussion & Analysis of financial condition and results of operations are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industries, businesses and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Annual Report.

Throughout 2017, the GraceKennedy Group continued to execute on our mission, making progress toward our strategic objective of delivering long-term consumer and shareholder value. The Financial Services segment was able to expand its physical reach with GraceKennedy Money Services (GKMS) entering The Bahamas, its twelfth regional market; GK Insurance establishing operations in St Vincent and the Grenadines, and receiving approval for operations in two additional Caribbean countries, Antigua and Grenada; and FGB opening three new locations. The Food Trading segment was able to strengthen its current standing in the local market through partnerships and acquisitions while entering new channels and markets overseas. Plans for 2018 will be guided by our vision of becoming a Global Consumer Group and a Regional Financial Group. To realise our vision, we have developed a cohesive strategy across the following four pillars of success:

- Growth and Sustainability
- Customer Centricity and Innovation
- Operational Excellence
- Performance-driven Organisation

GROWTH AND SUSTAINABILITY

After a strategic review of the Group's Vision and Mission statements, the GraceKennedy Executive Management team decided to make two important revisions to our Mission statement from 2018 onwards. We recognise that for truly sustainable growth, capturing the heart of the customer is paramount and as customer expectations change, so should our approach. The first change acknowledges that we aim to not only be known for exceptional taste and flavour, but also for memorable and immersive culinary experiences. Secondly, our food operations now distributes products across a variety of international cuisines around the world. Our revised Mission statement better reflects this broader scope.

Across our Food Trading and Financial Services segments, we will work towards solidifying our presence in the Jamaican market while building our brand in other territories. Plans include First Global Bank increasing its footprint islandwide by opening more satellite branches and agency locations. GK Capital Management, the Group's investment management and advisory arm, will seek to attract new clients through the addition of new products. GK Insurance will be pursuing the registration of operations in other regional countries while introducing additional products to its clients. GKMS will also be exploring opportunities to grow its retail network and build out GK MPay's ecosystem through strategic alliances.

On the International food side, we will pursue new markets, channels, and partnerships in Latin America and the Caribbean, North America and Europe. In Canada, we will expand our distribution arm into Western provinces and increase product offerings to the market. A major initiative for GK Foods (USA) LLC will be the launch of the La Fe brand refresh campaign with a new logo, packaging, and a focus on engaging our retail partners and consumers. For our Ghanaian operations, we will be assessing the best way to improve the distribution of Grace products throughout the country. In the United Kingdom, we will reinforce our presence with the Jamaican diaspora through consumer engagement and marketing, while building our brand in Europe. Plans for our Jamaican food business includes the completion of expansion work at our distribution centre and the new frozen foods factory in Denbigh, Clarendon which will begin production later this year. These initiatives are aimed at increasing our product offerings and the efficiency of our distribution process.

CUSTOMER CENTRICITY AND INNOVATION

The focus on serving our customers remains central to GraceKennedy's strategy and is evident in this year's theme, "Delivering Consumer and Shareholder Value through Innovative Solutions". In 2018, the Financial Services segment's initiatives will be centred on delivering a more unified customer experience both in our physical and digital channels. Our first step towards the goal was achieved in 2017, with the opening of the first GK ONE location. GK ONE allows customers to conduct banking, insurance, bill payment, remittance, investment, and cambio services at a single location. GK ONE satisfies our strategic goals to promote financial inclusion and increase cross-selling throughout the GraceKennedy Group. Throughout the year, there will also be enhancements to, and the introduction of new digital channels of each subsidiary to ensure that the customer has a fully integrated experience.

The Foods Trading segment launched a new global campaign, "Flava with a Beat", which highlights the global appeal of Jamaica's culture to celebrate the wide array of products offered by GraceKennedy Foods. This new theme with a refreshed, energetic vibe, encapsulates our mission of delivering the experience and great taste of our products to the consumer. Throughout 2018, we will be launching new products in various markets that seek to satisfy consumers' needs. Our new Denbigh factory will play a role in this plan through the production of frozen foods aimed at providing nutritious, convenient products for the market. As we work towards our goal of being a marketing-led organisation, we will continue to utilise our Group loyalty programme, GraceKennedy Value Rewards, as a business intelligence hub to garner insight about our customers so we can anticipate changing needs and provide innovative solutions.

OPERATIONAL EXCELLENCE

Consistently delivering value to both our consumers and shareholders requires a commitment to improving efficiency across all levels of the organisation. GraceKennedy will strengthen its operational excellence through the use of technology and the implementation of cost transformation initiatives to ensure an agile, efficient and high-performing corporate structure. In 2018, GraceKennedy Money Services will be automating several processes to increase productivity and improve service delivery to our customers. In our factories, we will be implementing process improvements and exploring automation to reduce waste and increase production output. First Global Bank will also continue to optimise its core banking software, Flexcube, in an effort to enhance customer experience.

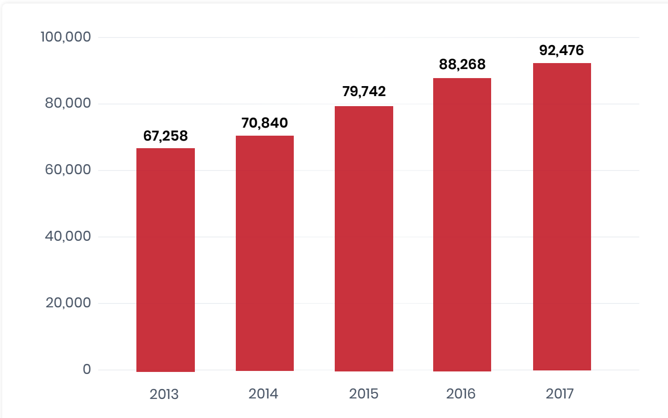
PERFORMANCE-DRIVEN ORGANISATION

Creating a results-driven culture, where employees are aligned to the Group's vision and strategy, and are motivated to excel, is the base of the Group's success. The continued engagement of our employees is key, and we constantly seek ways to improve performance-based rewards and recognition and ensure accountability. Career development is also a major focus of the Group as we aim to provide the necessary resources to help individuals grow within their chosen field. As GraceKennedy expands, we recognise that our employees are our most valued assets, and we will develop our talent pool ensuring that we have the right skill-set to flawlessly execute our mission across the globe.

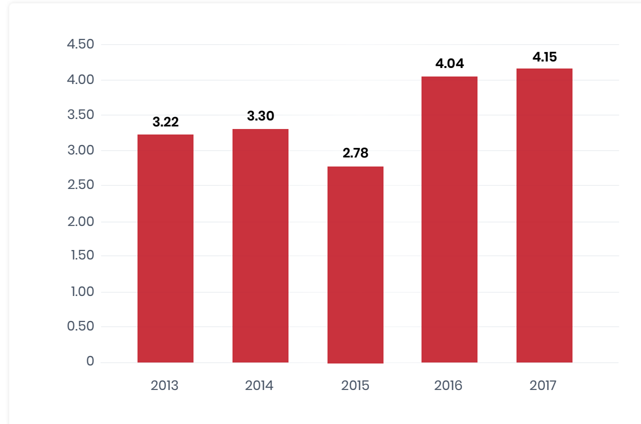
KEY EXPECTATIONS FOR 2018

- Executing a cross-selling strategy geared at marketing our wide range of products and services to existing and potential customers;
- Introducing new products and channels within the Financial Services segment and extending our financial services reach in the Caribbean through entry into new countries;
- Investing in the Grace-owned brands, including La Fe, to solidify our current standing in the local market and provide a platform for marketing efforts in other territories;
- Executing our financial inclusion strategy through GK ONE, agency banking, and GK MPay to target the unbanked and underbanked;
- Deploying new digital products and channels and increasing the services offered through current digital channels to improve customer experience;
- Completion of the construction of Corporate Headquarters in downtown Kingston, Jamaica and the realisation of further benefits under Jamaica's Urban Renewal (Tax Relief) Act;
- Achieving greater operational efficiency throughout the GraceKennedy Group through the use of technology and the implementation of cost transformation programmes to ensure an agile, efficient, and high-performing corporate structure;
- Executing on the results of our Employee Engagement survey: Total Rewards, Meaningful Work, People Management, Positive Work Environment, Growth Opportunity, and Trust in Leadership.

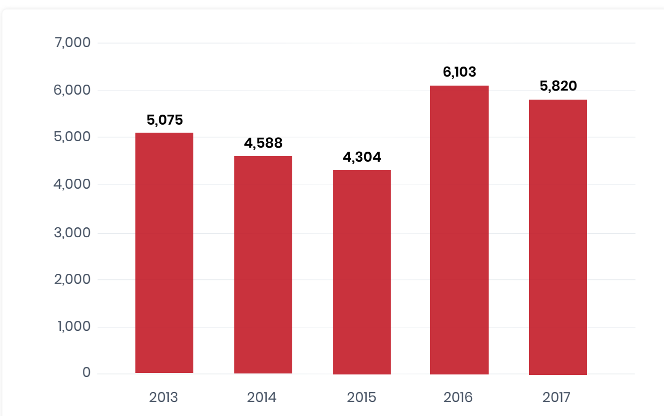
Revenue.
(J$ MILLIONS)



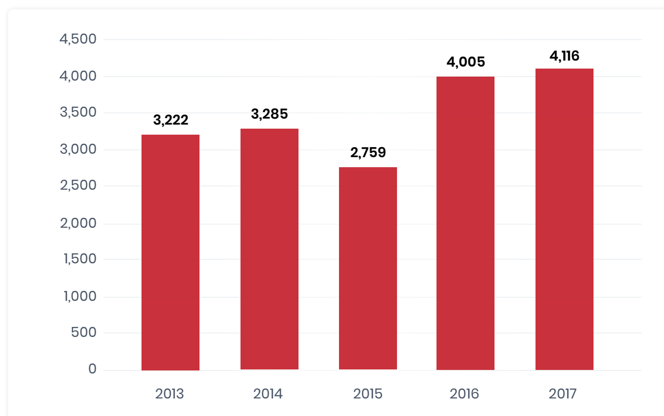
Earning Per Stock.



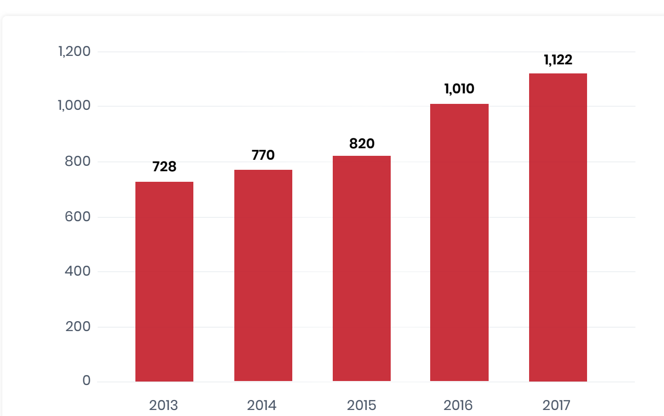
Profit Before Tax.
(J$ MILLIONS)



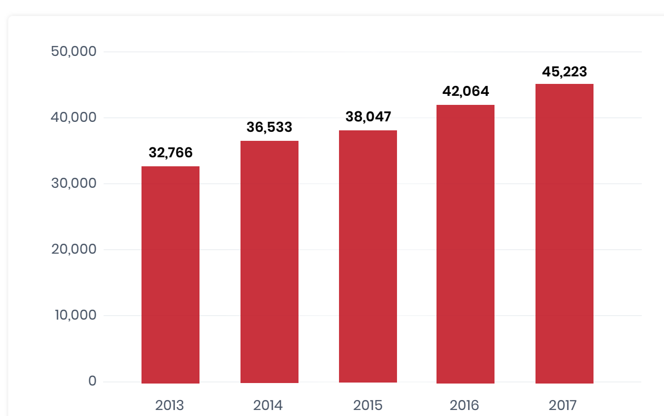
Net Profit Attributable to Stockholders.
(J$ MILLIONS)



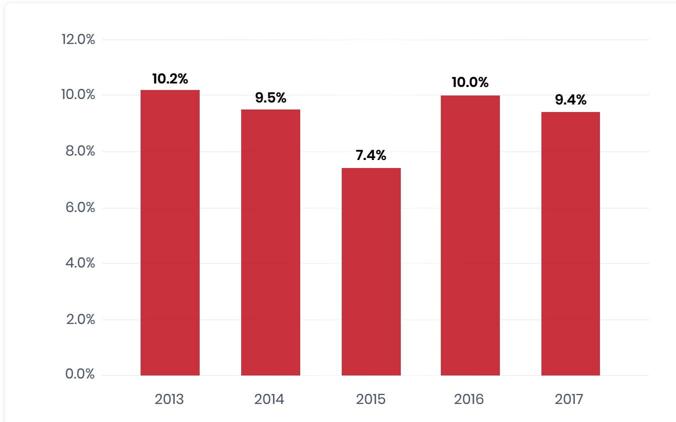
Dividend.
(J$ MILLIONS)



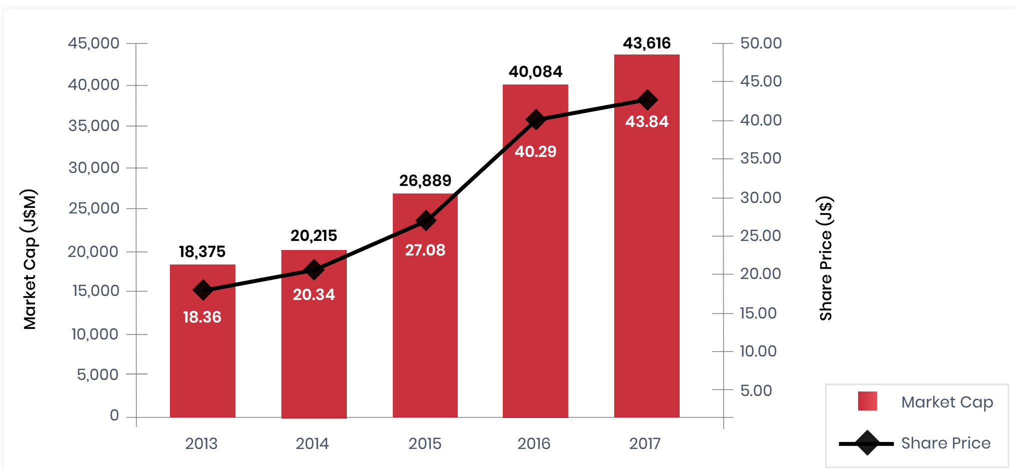
Shareholders' Equity.
(J$ MILLIONS)



Return on Equity.

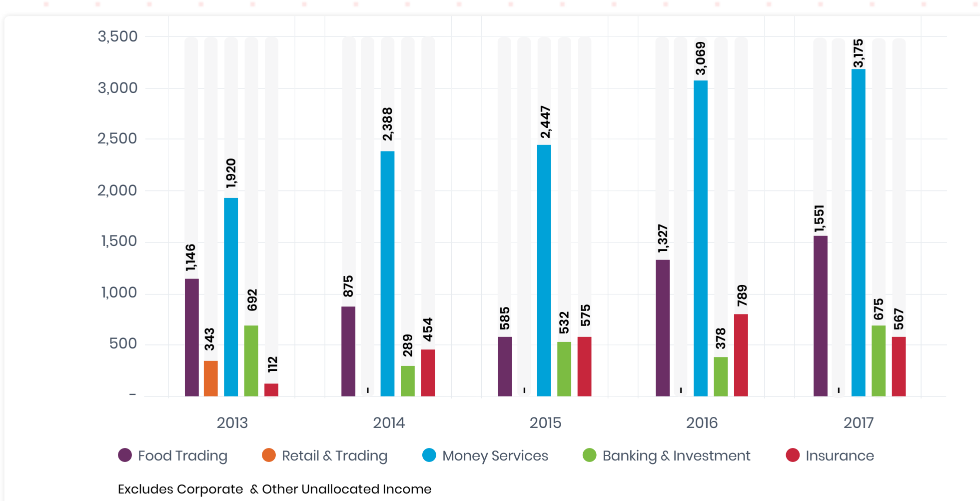


Market Capitalisation.



Contribution to Pre-Tax Profit by Segment.

(J$ MILLIONS)



SECTION 06

Leadership Team & Corporate Data.

Board of Directors.

AS AT 1 MARCH 2018

Gordon V. Shirley, OJ

Chairman, GraceKennedy Limited. President & Chief Executive Officer of the Port Authority of Jamaica.

Chair of GraceKennedy's Compensation Sub-Committee and Member of GraceKennedy's Corporate Governance & Nomination Committee.

Donald G. Wehby, CD

GraceKennedy Group Chief Executive Officer.

Mary Anne V. Chambers, O.Ont., MSM

Retired bank executive, former Ontario Cabinet Minister (Canada) and a resident of Canada. A member of GraceKennedy's Audit Committee and Corporate Governance & Nomination Committee.

Joseph P. Esau

Consultant on new project financing and mergers and acquisitions and a resident of Trinidad & Tobago. A member of GraceKennedy's Corporate Governance & Nomination Committee.

Frank A. R. James

GraceKennedy Group Chief Financial Officer.

Parris A. R. Lyew-Ayee Jnr

Director of the Mona GeoInformatics Institute and Senior Lecturer at The University of the West Indies, Jamaica.
A member of GraceKennedy's Audit Committee and Corporate Governance & Nomination Committee.

Everton L. McDonald, OD

Financial Consultant and retired Public Accountant. Chairman of GraceKennedy's Audit Committee, a member of the Corporate Governance & Nomination Committee and Compensation Sub-Committee.

Douglas R. Orane, CD, JP

Retired company executive, member of GraceKennedy's Corporate Governance & Nomination Committee, Audit Committee and Compensation Sub-Committee, and Chairman of the Boards of Trustees of the GraceKennedy Pension Schemes.

Gina M. Phillipps Black

Attorney-at-law and Partner in the law firm, Myers Fletcher & Gordon.
Chair of GraceKennedy's Corporate Governance & Nomination Committee.

Directors & Corporate Data.

AS AT DECEMBER 31, 2017

DIRECTORS

Professor The Hon. Gordon V. Shirley, OJ
Chairman

Donald G. Wehby, CD
Group Chief Executive Officer

Mary Anne V. Chambers, O.Ont., MSM

Joseph P. Esau

Frank A. R. James

Dr. Parris A. R. Lyew-Ayee Jnr

Everton L. McDonald, OD

Hon. Douglas R. Orane, CD, JP

Gina M. Phillipps Black

AUDITORS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Kingston, Jamaica

ATTORNEYS

DunnCox
48 Duke Street
Kingston, Jamaica

BANKERS

The Bank of Nova Scotia Jamaica Limited

Citibank N.A.

FirstCaribbean International Bank (Jamaica) Ltd.

First Global Bank Limited

National Commercial Bank Jamaica Limited

CORPORATE SECRETARY

Gail Moss-Solomon

REGISTERED OFFICE

73 Harbour Street
Kingston, Jamaica

REGISTRAR & TRANSFER OFFICE

GraceKennedy Limited
73 Harbour Street
Kingston, Jamaica

WEBSITE

www.gracekennedy.com

GraceKennedy Limited Senior Management.

AS AT MARCH 1, 2018

CORPORATE OFFICE

Donald Wehby, CD
Group Chief Executive Officer

Frank James
Group Chief Financial Officer

Cassida Jones
Group Chief Human Resources Officer

Gail Moss-Solomon
General Counsel & Chief Corporate Secretary

Steven Whittingham
Chief Investment Officer

Klao Bell-Lewis
Head of Corporate Communication

Radcliffe Daley
Chief Audit Executive

Cathrine Kennedy
Group Chief Risk Officer

Andrew Messado
Group Comptroller

Michael Ranglin
Executive Chairman, GraceKennedy Properties Limited

Simon Roberts
Group Chief Information Officer

GK FOODS

FOODS DOMESTIC

Ryan Mack
Chief Executive Officer, GK Foods Domestic

Andrew Ho
Senior General Manager, Manufacturing

Naomi Holness
Senior Human Resources Business Partner

Stanley Beckford
Chief Risk Officer

Debra Dodd
Divisional Chief Financial Officer

Dianne Robinson
Chief Supply Chain Officer

Zak Mars
Head of Innovation & Global Sourcing

Angeline Gillings
Managing Director, Grace Foods Limited

DAIRY INDUSTRIES (JAMAICA) LIMITED

Andrew Ho
General Manager

GK FOODS & SERVICES LIMITED

Ryan Mack
Managing Director

Andrew Wildish
General Manager, Grace Food Processors (Canning) Division

Radcliffe Walker
General Manager, Grace Food Processors Division

Renee Nathan
General Manager, Hi-Lo Food Stores Division

Dave Mitchell
General Manager, National Processors Division

Tamara Garel Thompson
General Manager, World Brands Services Division

Tamara Garel Thompson
General Manager, Consumer Brands Limited

Taji Alleyne
General Manager, Grace Agro-Processors Division

FOODS INTERNATIONAL

Andrea Coy
Chief Executive Officer, GK Foods International Business

Danielle Longman
Head of Planning & Strategy, GK Foods International Business

GRACEKENNEDY FOODS (USA) LLC.

Derrick Reckord
President & Chief Executive Officer

Gavin Jordan
Chief Financial Officer

Ricardo Bryan
Senior Vice-President, Northern USA

David Hernandez
Senior Vice-President, Brand, Marketing & Business Development

Carl Barnett
Senior Vice-President, Manufacturing

Alberto Young
Vice-President, Southern USA

Denise Spencer
Vice-President, Human Resources

GRACEKENNEDY (BELIZE) LIMITED

Gilroy Graham
Executive Chairman

GRACE FOODS CANADA INC.

Lucky Lankage
President

Jack Zhu
Chief Financial Officer

GRACE FOODS LATIN AMERICA AND CARIBBEAN (GF LACA)

Stephen Saddler
Regional Business Manager

GRACE FOODS UK LTD

Adam Reader
Managing Director

Brian Mitchell
Chief Financial Officer

George Phillips
General Manager Export

GRACEKENNEDY GHANA LIMITED

Robert Walker
General Manager

GK FINANCIAL GROUP

GRACEKENNEDY FINANCIAL GROUP LIMITED

Grace Burnett
Chief Executive Officer

ALLIED INSURANCE BROKERS LIMITED

Amanda Beepat
Managing Director

GK GENERAL INSURANCE COMPANY LIMITED

Grace Burnett
Managing Director

Andrew Leo-Rhynie
General Manager

GK INSURANCE BROKERS LIMITED

Marie Beckford
General Manager

GK INSURANCE (EASTERN CARIBBEAN) LIMITED

Grace Burnett
Managing Director

FIRST GLOBAL HOLDINGS LIMITED

Grace Burnett
Chief Executive Officer

FIRST GLOBAL BANK LIMITED

Mariame McIntosh Robinson
President & Chief Executive Officer

GK CAPITAL MANAGEMENT LIMITED

Steven Whittingham
Managing Director

GK INVESTMENTS LIMITED

Steven Whittingham
Managing Director

GRACEKENNEDY MONEY SERVICES (CARIBBEAN) SRL

Michelle Allen
Chief Executive Officer

GRACEKENNEDY PAYMENT SERVICES LIMITED

Margaret Campbell
Country Manager

GRACEKENNEDY CURRENCY TRADING SERVICES LIMITED

Margaret Campbell
Country Manager

GRACEKENNEDY REMITTANCE SERVICES LIMITED

Margaret Campbell
Country Manager

GRACEKENNEDY REMITTANCE SERVICES (GUYANA) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY (TRINIDAD & TOBAGO) LIMITED

Donald Edwards
Country Manager

GRACEKENNEDY MONEY SERVICES (BVI) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (ANGUILLA) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (ANTIGUA & BARBUDA) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (MONTSERRAT) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (ST KITTS & NEVIS) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (ST VINCENT) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (CAYMAN) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (TURKS & CAICOS) LIMITED

Coleen Patterson
Country Manager

GRACEKENNEDY MONEY SERVICES (BAHAMAS) LIMITED

Coleen Patterson
Country Manager

SIGNIA FINANCIAL GROUP INC *

Paul Ashby
Chief Executive Officer

**Associated Company*

Executive Management.

Donald Wehby, CD

Group Chief Executive Officer.

Grace Burnett

Chief Executive Officer, GraceKennedy Financial Group.

Andrea Coy

Chief Executive Officer, GraceKennedy Foods International Business.

Frank James

Group Chief Financial Officer.

Cassida Jones

Group Chief Human Resource Officer.

Ryan Mack

Chief Executive Officer, GK Foods Domestic Business.

Mariame McIntosh Robinson

President & Chief Executive Officer, First Global Bank Limited.

Gail Moss-Solomon

General Counsel & Chief Corporate Secretary.

Steven Whittingham

Chief Investment Officer.

GraceKennedy Limited Organisational Chart.

BOARD OF DIRECTORS

GROUP CEO

- **CORPORATE FINANCE & ACCOUNTING**
  - **RISK MANAGEMENT**
  - **INFORMATION TECHNOLOGY**
- **INTERNAL AUDIT**
- **GROUP SECRETARIAT & LEGAL**
- **CORPORATE COMMUNICATION**
- **HUMAN RESOURCES**
- **CORPORATE PLANNING & STRATEGY**

GK FOODS

- Grace Foods (UK) Limited
- Enco Products Limited
- Funnybones Food Service Limited
- Chadha Oriental Foods Limited
- GraceKennedy Ghana Limited
- Grace Foods Limited
- GraceKennedy Foods (USA) LLC
- GK Foods & Services Limited
- GraceKennedy (Belize) Limited
- Grace Foods Canada Inc.
- Consumer Brands Limited
- Dairy Industries (Ja.) Limited

GK FINANCIAL GROUP

- GraceKennedy Financial Group Limited
- GraceKennedy Money Services (Caribbean) SRL
- GraceKennedy Remittance Services Limited
- GraceKennedy Currency Trading Services Limited
- GraceKennedy Payment Services Limited
- GraceKennedy Remittance Services (Guyana) Limited
- GraceKennedy (Trinidad & Tobago) Limited
- GraceKennedy Money Services (Anguilla) Limited
- GraceKennedy Money Services (Antigua & Barbuda) Limited
- GraceKennedy Money Services (Montserrat) Limited
- GraceKennedy Money Services (St Kitts & Nevis) Limited
- GraceKennedy Money Services (St Vincent & The Grenadines) Limited
- GraceKennedy Money Services (BVI) Limited
- GraceKennedy Money Services (Cayman) Limited
- GraceKennedy Money Services (Turks & Caicos) Limited
- Allied Insurance Brokers Limited
- GK General Insurance Company Limited
- GK Insurance Brokers Limited
- GK Insurance (Eastern Caribbean) Limited
- Knutsford Re
- First Global Holdings Limited
- First Global Bank Limited
- GK Capital Management Limited
- GK Investments Limited
- Greenfield Media Productions Limited
- GraceKennedy Properties Limited
- Signia Financial Group Inc.

Shareholdings of Directors.

AS AT DECEMBER 31, 2017

ORDINARY STOCK UNITS OF NO PAR VALUE	TOTAL	DIRECT	CONNECTED PARTIES
Douglas Orane*	21,385,515	20,500,791	884,724
Donald Wehby*	10,929,855	8,575,248	2,354,607
Frank James	2,241,801	2,241,801	-
Gordon Shirley	641,282	641,282	-
Joseph Esau*	464,109	314,109	150,000
Mary Anne Chambers	196,152	196,152	-
Everton McDonald	198,720	198,720	-
Gina Phillipps Black	148,965	148,965	-
Parris Lyew-Ayee	113,070	113,070	-
TOTAL	**36,319,469**		

*Includes Stockholdings of connected persons

Shareholdings of Executive Committee Members and Senior Officers.

AS AT DECEMBER 31, 2017

ORDINARY STOCK UNITS OF NO PAR VALUE	TOTAL	DIRECT	CONNECTED PARTIES
Donald Wehby*	10,929,855	8,575,248	2,354,607
Frank James	2,241,801	-	-
Ryan Mack	1,049,871	-	-
Cassida Jones	832,631	-	-
Grace Burnett	622,218	-	-
Andrea Coy	553,313	-	-
Mariame McIntosh Robinson	414,708	-	-
Gail Moss-Solomon	0	-	-
SHAREHOLDINGS OF SENIOR OFFICERS**			
Cathrine Kennedy	10,365,869	-	-
Andrew Messado	421,059	-	-
Steven Whittingham	323,409	-	-
Janette Taylor	254,193	-	-
Radcliffe Daley	27,000	-	-
Terry-Ann Graver	0	-	-
Total	**16,644,397**		

*Includes Stockholdings of connected persons

**Pursuant to applicable Regulatory and Listing requirements.

Stockholders' Profile.

AS AT DECEMBER 31, 2017

	STOCK UNITS	%
Insurance Companies, Trust Companies & Pension Funds	325,717,549	32.74%
Private Individuals	292,891,847	29.44%
Investment Companies/Unit Trusts	173,510,674	17.44%
Others	86,155,700	8.66%
Private Companies	65,708,599	6.60%
Directors & Senior Managers	39,792,210	4.00%
Nominee Companies	10,718,615	1.08%
Publicly Listed Companies	391,698	0.04%
	994,886,892	**100.00%**

Top Ten Stockholders.

AS AT DECEMBER 31, 2017

	NAME	ORDINARY STOCK UNITS	%
1	Sagicor Pooled Equity Fund	63,823,374	6.42%
2	NCB Insurance Co. Ltd. A/C WT109	54,412,956	5.47%
3	National Insurance Fund	46,090,036	4.63%
4	GraceKennedy Limited Pension Scheme	44,922,201	4.52%
5	ATL Group Pension Fund Trustees Nominee Ltd.	25,404,561	2.55%
6	JCSD Trustee Services Ltd - Sigma Optima	22,006,156	2.21%
7	Douglas Orane	20,500,791	2.06%
8	SJIML A/C 3119	20,019,439	2.01%
9	Michele Marie Kennedy	19,696,716	1.98%
10	FredKenn Limited	16,827,381	1.69%
			33.54%

SECTION 07

Philanthropy.

From left: GraceKennedy Jamaican Birthright interns: Mathew Robinson, Cleveland Douglas and Tianna Thomas; Crystal-Gayle Williams,GraceKennedy Project Officer; GraceKennedy Jamaican Birthright intern, Menelik Graham; and Caroline Mahfood, Executive Director of the GraceKennedy Foundation. During their stay, the interns worked with GraceKennedy in various departments and enjoyed local attractions and events across Jamaica, including: the Rose Hall Great House, Devon House, the Grand Gala, Fort Charles, the Port Royal Marine and Biodiversity Lab, the Bob Marley Museum, Dolphin Cove, Chukka Tours, Appleton Estate Rum Tour, Martha Brae, Frenchman's Cove, Dunn's River Falls and the Green Grotto Caves.

GraceKennedy Foundation.

Board of Directors.

Dr Fred Kennedy, Chairman

Caroline Mahfood, Executive Director/Secretary

U. Philip Alexander

Deidre Cousins

Carol Gentles

Noel Greenland

Cathrine Kennedy

Fay McIntosh

James Moss-Solomon, CD, JP

Allison Rangolan

Radley Reid

Chaluk Richards

Elizabeth Thomas-Hope

Hilary Wehby

Making a positive impact in the areas of Education and the Environment.

The GraceKennedy Foundation continues to represent one of the primary avenues through which our parent company exercises its deep sense of corporate citizenship. In keeping with its mission, the Foundation focuses on contributing to national development through the areas of education and environmental stewardship.

Collectively, the portfolio of projects embraces public education and discourse, tertiary and secondary level training with emphasis on the former, and early childhood education with specific project areas being:

- Annual Lecture Series
- Scholarships and Bursaries
- Professorial Chairs
- Investing in Early Childhood Education
- The Birthright Programme

ANNUAL LECTURE SERIES

The 2017 GraceKennedy Lecture was delivered by Dr Michael Abrahams, obstetrician, gynaecologist and comedian. Dr Abrahams took an insightful and scholarly approach to the complex subject, "Humour, Laughter and Life", identifying the benefits of laughter in promoting health and well-being. The lecture was well received at the Jamaica Pegasus on 8 March 2017, and was designed to contribute to an understanding of the coping skills of the Jamaican and Caribbean psyche in the face of escalating crime and economic hardship.

SCHOLARSHIPS AND BURSARIES

In 2017, the Foundation invested just under $20 million in scholarships to 84 students for study at the tertiary level. There were five first-time recipients of full scholarships and 13 renewals. Eighteen students received final-year scholarships, including two enrolled at the Caribbean Maritime University, which achieved university status in September 2017. Additionally, the Foundation awarded 48 merit scholarships, previously known as bursaries. Scholarships are tenable at The University of the West Indies, the University of Technology, The Edna Manley College of the Visual and Performing Arts, and the Caribbean Maritime University.

Glendon Taylor (University of Technology Scholar); Akeem Kitson (Rafael Diaz Scholar for a student studying Business at The University of the West Indies); Jachin Mullings (Douglas Orane Scholar for a student studying Science, Technology or Engineering at the The University of the West Indies/University of Technology); Ryan Scott (Edna Manley College of the Visual and Performing Arts Scholar); and Jade Francis, (GraceKennedy/Jamaica Scholar) were the new recipients for 2017.

> *The GraceKennedy Foundation, on Thursday 14 September 2017, awarded $1.6 million to 27 children under the Carlton Alexander Memorial Awards for 2017/2018 academic year. High School students, from Grades 7 to 11, received $40,000; students in Sixth Form received $70,000 for each of their two years, and students attending tertiary-level institutions received a bursary of $100,000 each year.*

Over 120 volunteers participated in the International Coastal Clean Up activity at the Buccaneer and Gun Boat beaches in Kingston on 16 September 2017. In under two hours, more than 2000 lb of garbage and plastics were removed.

PROFESSORIAL CHAIRS

The GraceKennedy Foundation continued funding of the Carlton S. Alexander Chair in Management Studies and the James Moss-Solomon Snr Chair in Environmental Management at The University of the West Indies (UWI). The Chairs are held by Professor Ian Boxill, who has been in the post since 2010, and Professor Mona Webber, who was appointed on 1 October 2016, respectively. Each Chair is funded by the GraceKennedy Foundation at a value of $5.5 million per annum.

Among Professor Boxill's research and contributions is a programme with the Sandals Group and Island Tours to identify ways of leveraging Jamaica's attractions, improving the tourist experience, expanding linkages and earning more revenue for the country. He has also conducted a needs assessment with the Jamaica Manufacturing Association to identify ways of building capacity and increasing the effectiveness of the sector.

Professor Mona Webber and her team are engaged in life-giving and possibly life-saving work under the sea. Her focus is on the impact of pollution on marine health and includes special investigation of the contents found in the stomachs of fishes found in Jamaica's waters. Already discovered is that some fish are consuming toxic microplastics. Her research will have far-reaching implications for the livelihood of fishermen and the health of consumers of seafood.

INVESTING IN EARLY CHILDHOOD EDUCATION

The Foundation forged a partnership with the Dudley Grant Memorial Trust on a new early childhood education project with the objective of encouraging children between the ages of three and six years to develop an interest in science, technology, engineering, arts and mathematics (STEAM) in the future. In January 2017, a pilot project, involving basic and infant schools and infant departments in the community surrounding the GracKenndy/Parade Gardens STEM Centre in downtown Kingston, was started to train teachers and parents of young children on how to communicate science in an exciting way. In preparation for their work with the children, teachers and parents attended workshops showing them how to utilize the Science, Technology, Engineering and Mathematics (STEM) Centre effectively to assist with learning objectives to make learning easier and more fun.

BIRTHRIGHT PROGRAMME

The 2017 Jamaican Birthright Programme saw Menelik Graham, a freshman at Princeton University; Matthew Robinson, a junior at Georgetown University; Cleveland Douglas, a sophomore at Imperial College; and Tianna Thomas, a junior at Brock University, visiting Jamaica between 5 July and 7 August 2017. The programme afforded these second-generation Jamaican university students internships in their chosen career paths at GraceKennedy, while also

Carla Jones (second left) and Samantha Smith (right) and were the first recipients of the GraceKennedy Foundation's Scholarship offered to the Caribbean Maritime University Final Year Scholars. Seen here with Dr Fred Kennedy (left), Chairman of the Foundation, and Chaluk Richards (second right), Assistant General Manager of GK Insurance. 84 students from tertiary institutions received scholarships valued at $19 million.

exposing them to a dynamic cultural experience through a range of activities.

Shortlisting finalists and selecting the four winners proved challenging as the applicants were exceptional. The interviews emphasised the awareness of the Jamaican youth diaspora of their Jamaican birthright and their desire to be ambassadors for their native country.

ENVIRONMENT

The work of the James Moss-Solomon Snr Professor in Environmental Management Chair is the Foundation's primary contribution to environmental stewardship. In 2017, the Chair continued to make critical contributions to important areas of research, innovation, teaching and outreach for the enhancement of the Jamaican environment. Much of the work of the Centre for Marine Research, which falls under the auspices of the Chair, focused on the rehabilitation and protection of various aspects of the coastal and marine environment including the island's mangrove stock and coral reefs. Additional funds were invested in the acquisition of equipment, including a mangrove corer, which would help in the determination of carbon storage below the mangroves thus facilitating the assignment of monetary value to the island's stock. These initiatives are all aimed at increasing the island's resilience to natural disasters and the impacts of climate change.

GraceKennedy Foundation partnered with Campion College's GreenGen Environmental Group and the St George's College Environmental Club in cleaning up the Buccaneer and Gun Boat Beaches in observation of International Coastal Cleanup Day on 16 September 2017, an annual global event led by the Ocean Conservancy located in Texas, USA and initiated locally by the Jamaica Environment Trust (JET). The effort, led by Foundation Chairman, Dr Fred Kennedy, saw the involvement of over 120 volunteers. The group collected more than 2,000 lb of garbage and plastics in two hours.

> *Since 2013, the GraceKennedy Foundation has participated in six beach clean ups and has collected more than 2,200 lb of plastic and 4,153 lb of garbage.*

The recycling programme which was introduced in the GraceKennedy Group in 2014 continues to engage the interest and commitment of staff. In 2017, the eight subsidiary companies involved in the programme collected 21,541 lb of plastic. Since 2014, over 48,000 lb of plastics have been collected among the subsidiaries. Nine educational institutions–secondary and tertiary levels–have also been trained and are coordinating recycling initiatives at their respective schools.

Winning members of the Jamaica Cycling Federation receive their prizes following the Cycle Race component of the GK Education Run held 9 July 2017 in downtown Kingston.

Grace & Staff Community Development Foundation.

Board of Directors.

AS AT 1 MARCH 2017

James Moss-Solomon, CD, JP, Director/Chairman
Karen Lowther-Martin, Secretary
U. Philip Alexander
Klao Bell-Lewis
Marsha Cope-Johnson
Noel Greenland
L. Anthony Lawrence
Frank James
Caroline Mahfood
Rachel McKenley
Dave Mitchell
Joan-Marie Powell
Simon Roberts
Caryn Spencer

Inspiring Youth, Inspiring Change.

The Grace and Staff Community Development Foundation continues to impact thousands of lives through its investment in education and community development; strategic partnerships and involvement with public organisations such as the Social Development Commission and the Planning Institute of Jamaica; and the generous support of GraceKennedy's staff, including 200 GraceKennedy staff volunteers who extended a helping hand to participate in various philanthropic activities carried out during the year to support the communities in which we live and work.

Over 3,000 participants participated in the ninth staging of the GraceKennedy Education Run on 9 July 2017, helping to raise funds for, and awareness of the needs of the communities we serve. The event yielded a surplus of over $3 million in support of our bursary and tuition programmes from which 500 secondary and tertiary students received assistance amounting to over $10 million during the year.

In contributing to other areas of youth development, the Foundation invested another $13 million in early childhood education projects and donations, enrolling 750 students in the homework programmes at our Youth Development Centres.

Donation of food items to the canteen of the Calabar Infant, Primary and Junior High School

Tanketa Chance Wilson, General Manager, Grace and Staff Community Development Foundation and Dave Richards, Senior Member of the LICK/SPARK Camera Clubs, admire the top three entries in the annual photography competition. Under the theme, "Leeds through the Lens", over 40 students of the photography programme visited the farming community of Leeds in St Elizabeth, where they focused on flora, animals, places of interest and people. Winners included Patrick Williams' "Nuts in the Clouds"; second place awarded to Monifa McKenzie for "Despair", and Courtney Bryan taking third place for "Cherished Moments".

Early childhood institutions within the Central Kingston and Rae Town communities were exposed to the educational and cognitive skill development benefits of a new Science, Technology, Engineering and Mathematics (STEM) programme, designed to equip students with the subjects needed for non-traditional career paths. In partnership with the Scientific Research Council and Supreme Ventures, joint summer camps were hosted at the STEM Centre.

Students of 12 schools, including Holy Family, St Michael's Infant, Majesty Gardens Infant, and Windward Road Primary Schools benefited from educational tours, children's and community treats, and Labour Day projects. Calabar Infant, Primary and Junior High School's Grade 6 block received a facelift, and shade trees were planted in support of the environment club's efforts. This was done with the support of teams from the school community, as well as from GK Insurance and GK Capital Management.

Our community support continued with our quarterly contribution of $90,000 to the Rae Town Salvation Army Geriatric Clinic, and the provision of sustained support through product donations, capacity building sessions and skills training, made available to community development committees and local community based organisations.

Among the notable achievements in 2017, was the Foundation's repeat victory at the eleventh staging of the Council of Voluntary Social Services (CVSS) Summer Games held at the UWI Mona Bowl on Saturday 8 July 2017.

> *One hundred and twenty participants from the Grace and Staff Community Development Foundation's programmes excelled in track and field and artistic events. The Games brought together at-risk youth from a wide cross-section of underserved and vulnerable communities. The event aimed to build self-esteem, encourage positive behavior and interaction through sport.*

Supporting Communities.

Survey: Grace, Digicel top GOOD CORPORATE CITIZEN

Digicel's headquarters in downtown Kingston.

THE LONG-ESTABLISHED GraceKennedy and relative newcomer Digicel have been voted the two corporate entities that have done the most to create a good image of Jamaica around the world.

The two also share the top spots in a tightly bunched field as to the corporate entities persons would vote for based on their reputations for how they treat their workers and which have done the most to give back to Jamaica.

That is according to a recent Gleaner-commissioned Bill Johnson poll conducted islandwide from June 9 to 11, with 1,500 respondents and a sampling error of plus or minus of two per cent.

Other major corporate entities – including LASCO, Red Stripe-Desnoes & Geddes, Tankweld, J. Wray & Nephew, Wisynco, NCB, Scotiabank, and FLOW/LIME – also figured prominently in the minds of the respondents in one or all categories.

But with the 95-year-old GraceKennedy getting the most 'likes' in two of the categories and finishing second in the other, its chief executive officer (CEO), Don Wehby, told **The Gleaner** that the entity was grateful for the opportunity to be one of Jamaica's flag bearers.

#Jamaica 55

"The creed by which we live is service to our country and doing all we can to make Jamaica the best that it can be. We believe that what is good for Jamaica is good for GraceKennedy, and our unyielding faith in our beloved country guides us to deepen our stakes where possible," said Wehby.

"We will continue to invest significantly in Jamaica and are positioning ourselves to do more with the construction of new, larger corporate headquarters on the Kingston waterfront and the opening of our sixth factory next year."

GIVING BACK IN OUR DNA

The 16-year-old Digicel has had its detractors over the years, but 25 per cent of respondents deemed it the country's best corporate citizen.

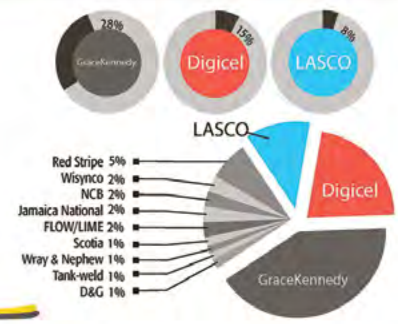
That is good news for David Butler, group CEO of Digicel Jamaica, who told our news team that the entity would continue to uplift and give back to the nation.

"As a Jamaican brand, giving back is at the heart of what we do. It's deeply ingrained in our DNA. Whether through our foundation or sponsorship activities, we believe that as we grow, our customers, and by extension, our country, should grow, too," said Butler.

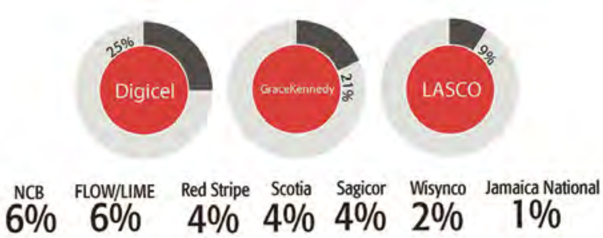
"This is also an honour, and we must say thanks to our talented employees who go above and beyond for our customers every day. They truly epitomise what it means to be Digicel, and for this, we are thankful."

WEHBY

Since Independence, which Jamaican companies do you think have done the most to create a good image for Jamaica around the world?



Which Jamaican companies do you think have done the most to give back to Jamaican society and help and support people? In other words, which Jamaican companies are the best corporate citizens?



If you had the opportunity, which company or organsation in Jamaica would you really like to work for based on the reputation it has for how it treats its workers?

First published in The Gleaner, 4 August 2017, Page A2. Reproduced here with the permission of The Gleaner.

The Grace Foods and Reach Society Scholarship at Brunel

Grace Foods UK, the United Kingdom's leading supplier of Caribbean food and drink, marked its 10th anniversary by announcing a collaborative scholarship with Brunel University London. The scholarship, in conjunction with the Reach Society, addresses an under-representation of male British students of Caribbean background in UK Higher Education and provides financial support to fully cover the cost of tuition at the university. The scholarship includes a paid internship of up to 10 weeks, at the end of the first or second year.

Group CEO, Donald Wehby (left) and Grace Foods UK Managing Director, Adam Reader (right) presenting the first Grace Foods and Reach Society Scholarship to Rio Riveira.

I-PLEDGE Facilitates Healthy Debate Among Primary School Youth.

George Headley Primary of Duhaney Park, St Andrew, rose from a field of 14 competing schools to emerge the winners of the 2017 Western Union Primary Schools Debate Competition. The final moot, "Be it resolved Jamaica is the best place in the Caribbean to live, work and do business", was proposed by George Headley Primary, and successfully defended by Kaytanna Edwards, Yasheema Leslie, and Nakiata Gordon. The all-girl team and their head coach, Andre Plummer, took home the championship title, 1st Place trophies and a cash award of $300,000 for their school. Corinaldi Avenue Primary received runner-up trophies and a cash award of $150,000; and their first speaker and head girl, Kimberly Simms, was awarded Best Speaker.

The Western Union Debate Champions George Headley Primary School with CEO of GKMS, Michelle Allen (left) marketing manager for Western Union, Vinette Rowe (right) and team coach, Andrae Plummer.

Western Union's Debate Competition gives primary school children an outlet to express their opinions on issues which affect them and the country at large, and is one of the initiatives of the I-PLEDGE (I Promise to Lend Encouragement to Develop Growth in Education) which seeks to promote and enhance literary skills in the primary education system.

GK Belize – Serving Communities

GraceKennedy Belize maintained a strong presence in the community throughout the year as part of its 35th anniversary outreach and community activities. In addition to observing the 95th Anniversary, GK Belize observed its 35th anniversary with a tree planting at the roundabout on Philip Goldson Highway.

From left: Luis Thompson, Parks Manager, Belize City Council; Myra Blanco, Material Requirements Analyst; Luis Ugarte, Sales Manager; Harsha Vaswani, Marketing Coordinator; Wayne Garbutt, Grace Brand Assistant; Gilroy Graham, Executive Chairman; Councilor Kevin Singh, Belize City Council); Trudy Swaso, Senior Brand Manager-Grace Brand.

GraceKennedy Foods (USA) LLC

GraceKennedy Foods (USA) is integrated within the Caribbean and strengthening links within Latin American communities. Among its many outreach activities are support to the Florida Caribbean Students Association, Indian Trace Elementary School, Caribbean American Cultural Group, Ole Farmers Association, and the Centro De Avivamiento Cristiano. Through the Florida-based Latin Chamber of Commerce and Industry of USA (CAMACOL) and along with other partners, 3000 families in need received baskets of groceries for Christmas.

Alberto Young, Senior Vice-President of Sales for South East USA for GraceKennedy Foods (USA) LLC (front, right) accepts an award on behalf of the company from Oscar Echevarria, President of CAMACOL (fourth from left)

Labour Day

GraceKennedy Limited threw its support behind the National Labour Day Projects on Tuesday 23 May 2017 by improving the environment of three primary schools and providing refreshments for the 500 volunteers who signed up for the National Projects in Kingston.

Grace Foods provided refreshments for volunteers at the Ward Theatre and the Central Police Station in Kingston. Both the Ward Theatre and Central Police Station were visited by the Most Honourable Andrew Holness, Prime Minister of Jamaica and the Most Honourable Peter Phillips, Leader of the Opposition, along with other elected officials. The Prime Minister stopped by the booth at Central Police Station to commend Grace Foods for their support. He further identified with the volunteers by sharing a meal with them. At the Calabar Infant, Primary and Junior High School on Sutton Street, more than 30 team members from the Grace and Staff Community Development Foundation, GK Insurance and GK Capital Management painted the Grade 6 classroom block, planted trees and cleaned up the premises.

At the Seaward Primary and Junior High School in the Kingston 11 area, more than 40 team members, under the Global Cares banner, painted a section of the Grade 4 block, cleaned up the surrounding school grounds, initiated a new greenhouse and vegetable garden; and oversaw the mounting of a new playground.

Dairy Industries (Jamaica) Limited led a team of 15 staff and 16 community members in improving the security and aesthetics of the Drew's Avenue Infant and Primary School located in Kingston 20. Dairy Industries covered the costs for the installation of a chain link fence, while the staff and community team spread top soil, planted flowers and started a vegetable garden. Members of the community also worked on constructing an office for guidance counselling.

Mariame McIntosh Robinson, President and CEO of First Global Bank, working at Seaward Primary and Junior High School in Kingston.

'This is Really Great!' Yogurt Assists Young Sunshine Girls

Dairy Industries (Jamaica) Limited's brand, 'This is Really Great!' Yogurt, assisted the Young Sunshine Girls U-21 Netball Team in their bid for the Netball World Youth Cup held in Botswana in July 2017. Sponsorship was valued at $3 million.

From left: Carlalee Tingling, Vice-Captain of Under-21 Sunshine Girls; Head Coach, Janet Guy; Dr Paula Daley-Morris, President of Netball Jamaica; Nadine Roberts, Marketing Manager of Dairy Industries; and General Manager, Andrew Ho, engage in discussion during a sponsorship conference at the dairy company's Washington Boulevard plant recently.

GKI (EC) Ltd. sponsors Chess in Saint Lucia.

Winners of the 2017 GKI (EC) Ltd. Chess in Schools Programme. More than 70 students from primary and secondary schools across the country entered the annual competition which was organised by the National Community Foundation of Saint Lucia.

	1	2	3
PRIMARY SCHOOL CATEGORY	**Bradon Chastanet** International School (Right)	**Kurt Emmanuel** R.C Boys Primary School (Front – Second from Right)	**Neige Annerville** RichFord Primary School (Front – Second from Left)
SECONDARY SCHOOL CATEGORY	**Sven Fevrier** Castries Comprehensive Secondary School (Back Row - Left)	**Eli Adampoulos** Leon Hess Secondary School (Back Row - Right)	**Andy Rosemand** Clendon Mason Secondary School (Front - Left)

Coaches and principals of schools that broke records at the ISSA/GraceKennedy Boys' and Girls' Athletic Championships 2016/2017 with GraceKennedy and ISSA representatives.

GK Rewards 'Champs' Record Breakers.

From left: Prynce-David Royal, Marketing Officer, GraceKennedy Money Services; David Reid, Business Development Manager, Grace Foods and Services; Andrea Coy, CEO of Grace Foods (Domestic); Walton Small, Principal of Wolmer's Trust High School for Boys; Colleen Montague, Principal of Wolmer's Trust High School for Girls; and Klao Bell-Lewis, Head of Corporate Communications.

GraceKennedy Limited awarded a total of $1,325,000 to schools that broke records in the 2016 and 2017 ISSA/GraceKennedy Boys' and Girls' Athletic Championships.

In 2017, 28 records were broken by 14 schools, while 25 records were broken by 15 schools in 2016; totaling 53 records broken over the two years.

Record breakers in 2016 were: Calabar High School, Convent of Mercy (Alpha), Edwin Allen High School, Excelsior High School, Hydel High School, Morant Bay High School, Muschett High School, Petersfield High School, Rhodes Hall High School, St Jago High School, Holmwood Technical High School, Vere Technical High School, Jamaica College, Kingston College, and Munro College.

The 2017 record breakers came from: Calabar High School, Edwin Allen High School, Excelsior High School, Grange Hill High School, Hydel High School, Mannings High School, Petersfield High School, Queens High School, Spaldings High School, St Jago High School, Wolmer's Trust High School For Boys, Jamaica College, Kingston College, and Vere Technical High School.

GraceKennedy currently commits $100 million in support annually through the partnership of Grace Foods, First Global Bank and Western Union.

SECTION 08

GraceKennedy Ltd. Directors' Report.

Directors' Report.

1. The Directors are pleased to present their report for the year ended 31 December 2017 and submit herewith the Consolidated Income Statement and Consolidated Statement of Financial Position for GraceKennedy Limited and its subsidiaries as at that date.

2. **OPERATING RESULTS**

	$'000
Revenues	92,475,652
Profit Before Taxation	5,819,562
Net Profit After Tax	4,772,100
Net Profit After Tax Attributable to Stockholders	**4,116,101**

3. **DIVIDENDS**

THE FOLLOWING DIVIDENDS WERE PAID DURING THE YEAR:

- $0.30 per ordinary stock unit was paid on 18 May 2017
- $0.38 per ordinary stock unit was paid on 26 September 2017
- $0.45 per ordinary stock unit was paid on 11 December 2017

The Directors recommend that the interim dividends paid on 18 May 2017, 26 September 2017 and 11 December 2017 be declared as final for the year under review.

4. **DIRECTORS**

The Directors as at 31 December 2017 were as follows:

Gordon Shirley, OJ
Chairman

Donald Wehby, CD
Group Chief Executive Officer

Mary Anne Chambers, O.Ont., MSM

Joseph Esau

Frank James

Parris Lyew-Ayee Jnr

Everton McDonald, OD

Douglas Orane, CD, JP

Gina Phillipps Black

In accordance with Article 102 of the Company's Articles of Incorporation, Messrs. Frank James, Everton McDonald and Gordon Shirley will retire by rotation and, being eligible, offer themselves for re-election.

5. **AUDITORS**

Messrs. PricewaterhouseCoopers, the present Auditors, have signified their willingness to continue in office pursuant to Section 154 of the Companies Act, 2004.

6. The Directors wish to express their appreciation to the management and staff for their achievements during the year.

By Order of the Board
1 March 2018
Gordon V. Shirley, OJ
Chairman

Group Audit Committee Report.

YEAR ENDED DECEMBER 31, 2017

COMPOSITION

The Group Audit Committee consists of four non-executive, independent Board members, one of whom is a financial expert, "a person with an understanding of financial statements and applicable accounting principles and experience in preparing, auditing, analyzing or evaluating financial statements" and the others, financially literate, in accordance with the Terms of Reference of the Committee.

The Terms of Reference of the Committee, by which it is guided, are reviewed annually by the Committee and approved by the Board and comply with applicable laws, rules and regulations, including the Private Sector Organisation of Jamaica's Code on Corporate Governance and the Jamaica Stock Exchange's Corporate Governance Guidelines.

MANDATE

The Group Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of the Company and its subsidiaries (The Group) in relation to:

- Reliability and integrity of the accounting principles, processes and practices, financial statements and other financial reporting;
- Internal audit;
- Enterprise risk management functions and processes;
- Qualifications, independence and performance of the external auditors and approval of fees for audit and non-audit services;
- Systems of internal controls and procedures established by management and their effectiveness;
- Compliance with legal and regulatory requirements.

In performing its work, the Committee is assisted by the Chief Audit Executive, who functions as head of the Internal Audit Department, the Group Chief Executive Officer, the Group Chief Financial Officer and other members of management as required, all of whom have unrestricted access to the Committee.

The Committee has the authority to engage at the Company's expense external legal, accounting and other professional expertise, when deemed necessary for the effective discharge of its responsibilities.

ACTIVITIES

The Committee met seven times in 2017 including a special meeting for the purpose of reviewing the annual Management Discussion and Analysis. The attendance of the members is indicated on page 79. Senior representatives of the external auditors attended all six regular meetings.

DURING THE YEAR THE COMMITTEE:

- Assessed the independence, performance, and scope of the annual audit plan of the external auditors and recommended their appointment by the stockholders and approval of their fees to the Board;
- Approved the scope of the annual audit plan of Internal Audit and related budget and staffing;
- Reviewed internal audit reports covering financial, information technology (IT), operational and compliance audits in respect of which recommendations for improvements were made to management and the Board which were accepted and either implemented or are in the process of being implemented.;
- Reviewed management letters from the external auditors relating to internal control issues and findings.

- Received reports from management on significant tax, legal, regulatory, enterprise risk, IT, security, fraud and whistle-blowing related matters.
- Evaluated and discussed the framework presented by management for the implementation of IFRS 9-Financial Instruments, IFRS 15-Revenue from Contracts with Customers, IFRS 16-Leases and the supporting role of the external auditors.
- Considered the involvement of Internal Audit in special management projects and investigations and the outcome of such activities:
- Reviewed the composition, duties and responsibilities of subsidiaries' Audit Committees and significant findings from their meetings.
- Received presentations from the external auditors on significant accounting matters and areas of accounting judgement, including the acquisition of Consumer Brands Limited during the year, the accounting for which was based on a valuation done by other independent auditors.
- Held separate meetings with the Chief Audit Executive and external auditors, without the presence of management.
- Reviewed and after consultation with management and external auditors, recommended to the Board, unaudited quarterly financial statements and the 2017 audited annual financial statements for its approval and release to stockholders.

CONTINUING EDUCATION

In keeping with the Committee's mandate and emphasis on continuing education, members of the Group's Audit Committees attended the annual Directors and Management Training Workshop, which included sessions highlighting Emerging Enterprise Risks, IFRS 9-Financial Instruments, Risks Associated with Environmental Changes and Global Compliance Trends and Predictions for 2017/18.

QUALITY ASSESSMENT OF INTERNAL AUDIT

The External Quality Assessment of Internal Audit, which is undertaken every five years per Company policy, was completed by the Institute of Internal Audit (U.S.A) in March 2017.

The Committee is extremely pleased to advise that in its final Report dated 31 May, 2017, the Institute opined that our Internal Audit Department "generally conforms to the standards and definitions of internal audit."

This is the highest quality rating issued by the Institute and management and internal audit staff are to be commended on this achievement.

Audit Committee Members:

E. L. McDonald, OD (Chair)

M. A. V. Chambers, O.Ont., MSM

P. Lyew-Ayee Jnr

D. R. Orane, CD, JP

GraceKennedy's Corporate Governance & Nomination Committee Report.

STRONG GOVERNANCE STARTS AT THE TOP

Strong governance starts at the top where GraceKennedy Group's guiding values and ethical climate are established. In the context of corporate governance this means that it is the Board's role and responsibility to create a culture that consistently places a high priority on compliance and holds management accountable. The Corporate Governance & Nomination Committee assists the Board in fulfilling its oversight responsibilities by ensuring that its directors are well-informed, focused on strategic matters and operate in a way that seeks to continuously improve governance and ethical practices within the Group.

THE BOARD OF DIRECTORS

The Board's role is to lead the Group, within a framework of prudent and effective controls, to set strategic objectives and monitor performance indicators, using our Balanced Scorecard, to achieve these objectives. The Board must ensure that the Group's core values of honesty, integrity and trust are respected and that companies within the Group act responsibly, with respect and fairness in our dealings with employees, customers, suppliers, shareholders and all other stakeholders in the communities in which we operate globally.

During 2017, the Board of GraceKennedy Limited comprised nine (9) Directors, seven (7) of whom are non-executive Directors. The remaining two (2) Directors are executives Donald Wehby, the Group's Chief Executive Officer and Frank James, the Group's Chief Financial Officer. The Board is led by an independent Chairman, Professor Gordon Shirley.

All non-executive Board members are members of the Corporate Governance & Nomination Committee. All non-executive Board members are considered to be independent having regard to relationships or circumstances which are likely to or could materially affect their objectivity as outlined in our Corporate Governance Code. This independence is important as non-executive Directors are expected to constructively challenge proposals on strategy and monitor indicators of success in meeting agreed objectives through the Group's reporting structures.

The Compensation Committee, which exists as a sub-committee of the Corporate Governance & Nomination Committee, is currently chaired by the Chairman of the Board. That Committee routinely reports to the Corporate Governance & Nomination Committee on its deliberations. The Board also has an Audit Committee. All Committees have documented terms of reference that have been approved by the Board and are reviewed and revised, where appropriate, by the respective Committee and the Board, at least annually.

While the Board currently has a good balance of skills and experience, the Committee is working at ensuring that plans are in place for orderly succession for appointments to the Board, to maintain an appropriate balance of skills and experience, and also to strengthen the Board in areas of competence required to support new opportunities and challenges in our domestic and international markets. The Corporate Governance & Nomination Committee leads the process for Board appointments, maintaining a Competency Matrix to assist in succession preparation and planning. Consideration of potential candidates for the Board includes such factors as diversity in age and gender, skills, knowledge and experience. The Committee is committed to ensuring that potential candidates are persons of high integrity and sound judgment, who are able to devote adequate time to Board matters, including preparing for meetings, and whose interests will not interfere with their independence and the effective discharge of their duties.

The Committee reviewed the plan presented by the Group CEO for succession in Executive positions, including his own. The Committee also discussed steps to be taken by the Group CEO in order to bring persons into readiness and to ensure the skills and experience needed for success.

ETHICS

The Committee conducted its annual review of Directors' knowledge of and adherence to GraceKennedy's Code of Ethics & Guidelines for Business Conduct. During the year, the Committee also reviewed the disclosure by the Group's Directors of business interests and identified no breaches or circumstances that would have affected the Directors' independent judgement.

The Committee revised and clarified the conflict of interest information required in the Disclosure of Business Interest Form as it pertains to employees and the Application Form for Staff was amended to require disclosure of business interests as a condition of employment.

ATTENDANCE

Board members are required to attend Board and assigned Board Committee meetings regularly and to prepare for and participate actively in those meetings. Attendance, as illustrated in the table below as well as the participation of Directors at these meetings, continues to demonstrate their high level of commitment to their responsibilities.

GRACEKENNEDY LIMITED
Board and Committee Meeting Attendance

NAMES OF DIRECTORS & DATES OF APPOINTMENT TO BOARD	EXECUTIVE (E)/ NON-EXECUTIVE (NE)	BOARD	CORPORATE GOVERNANCE & NOMINATION COMMITTEE	AUDIT COMMITTEE	COMPENSATION
Mary Anne Chambers 26-May-11	NE	7/7	5/5	7/7	n/a
Joseph Esau 30-Nov-06	NE	7/7	5/5	n/a	n/a
Frank James 27-Sep-12	E	7/7	n/a	n/a	n/a
Parris Lyew-Ayee Jnr 06-Mar-13	NE	7/7	5/5	7/7	n/a
Everton McDonald 26-May-11	NE	7/7	5/5	7/7	2/2
Douglas Orane 30-May-85	NE	7/7	4/5	7/7	2/2
Gina Phillipps Black 08-Feb-12	NE	7/7	5/5	n/a	n/a
Gordon Shirley 30-May-96	NE	6/7	5/5	n/a	2/2
Donald Wehby 05-Oct-09	E	7/7	n/a	n/a	n/a

The CGNC also reviewed the attendance, at meetings, of Directors of the main operating subsidiaries in the Group.

EVALUATIONS

The Group's Corporate Governance Code requires that a "formal and rigorous" performance evaluation of the Board, its Committees and its individual Directors should be undertaken at least once a year. The evaluation is currently conducted by the Business Intelligence Unit of GraceKennedy Limited and is administered electronically using an online survey tool. In 2016 the Committee decided that an external facilitator would be utilised once every four (4) years for the Board evaluation exercise. The annual process involves an evaluation of the performance of the Board, its Committees and individual Directors. The evaluation is based on criteria developed by the Board, initially with the assistance of international experts, and refined from time to time by the Board to take account of changing circumstances in the Company's business, improved measurement tools and other factors such as whether the responder is an executive or non-executive Director. The evaluation also covers the Group's competitive landscape and the attendant risks affecting the industries in which the Company operates, factors that are aimed at enhancing strategic discussions and decision making. The full format conducted in alternate years involves an assessment of the GraceKennedy Board, a self-assessment of the individual members of the Board, and an assessment of peer Board Members. In the other years, there is less emphasis on the peer review.

After the completion of the Board Evaluation Report, the Group Chairman and the Chairman of the CGNC meet with each Director individually to explore and examine any areas raised by the report which may require further discussion. In the case of the interview of the Group Chairman and the Chairman of this Committee, the Chairman of the Audit Committee sat on the interview panel in the place of the Chairman who was being interviewed.

Arising out of these discussions and where necessary, professional development plans are created to address any opportunities for growth and development on the part of a Director and factored in where necessary into the budgeting process to ensure resources, human or financial, are allocated to allow fulfilment of these plans.

During the course of the year, GraceKennedy's General Counsel & Chief Corporate Secretary, Mrs. Gail Moss-Solomon, briefed the Committee's members on the Jamaica Stock Exchange's launch of the Corporate Governance Index, a system developed to benchmark Corporate Governance. Mrs. Moss-Solomon was appointed Secretary of GraceKennedy Limited effective 1 April 2017, following the retirement of Mrs. Karen Chin Quee Akin.

BOARD TRAINING

Good governance requires Directors to oversee company performance by assessing the right data and to be seized of the relevant information on what lies ahead and how we might prepare for future challenges and opportunities. Our annual Group Directors' Training is an important part of Directors' professional training and attendance is considered important to effective performance by Board members. In 2017 this training covered a range of areas including IFRS standards applicable to the Company, emerging risks and megatrends, risks associated with environmental changes and catastrophe modelling, the use of the balanced scorecard tool to manage risks and a review of compliance trends and GraceKennedy's programme for monitoring compliance. The Grace & Staff Foundation and the GraceKennedy Foundation presented on their work, with testimonials from students and their parents on how the Foundations' programmes have positively impacted their lives.

In addition to the annual Group Directors training, all Subsidiary Board Chairs are encouraged to arrange sector specific training for their respective Boards. Information Technology Security Awareness training remains mandatory for Directors in the Group and is ongoing.

The Board continues to hold a full day Retreat to review and explore with management the Group's strategic plans.

OUR CODE: OUR WORD IS OUR BOND

Our Corporate Governance Code was updated to emphasize our commitment to strong corporate social responsibility (CSR) and sustainability as reflected throughout our internal and external operations, systems and programmes. This includes measures to promote the wellbeing and development of our employees and the communities in which we operate globally and extends to the promotion of responsible behaviour for the protection of the environment. The Group remains committed to providing quality products and services for our customers, clients, consumers and partners who we will treat fairly and with respect. Our word is our bond. Copies of our revised Corporate Governance Code have been submitted to the Stock Exchanges of Jamaica and Trinidad & Tobago, on which the Company is listed.

The current version of the Code is publicly available through the Company's website http://gracekennedy.com under the GK Media Centre tab.

In 2017, GraceKennedy was recognised in a Gleaner-commissioned Bill Johnson poll as a top corporate entity based on the reputation it has for how it treats its employees, and the work done by the Company to create a good image of Jamaica around the world.

SHAREHOLDER AND STAKEHOLDER ENGAGEMENT

At the Annual General Meeting (AGM) held on 31 May 2017, our shareholders and investors were updated on the Company's performance and plans. Participation at our AGM is encouraged and stakeholders do avail themselves of the opportunity to do so. Minutes of the meeting, including the questions asked by stakeholders, are available to shareholders at the subsequent AGM. Shareholders may also submit a request for a copy of the minutes via email to gracekennedy@gkco.com and a copy will be emailed to them or may be collected from the Company's Head Office in Jamaica.

Quarterly Investor briefings to discuss published results take the form of an on-line conference, accessible via a live Internet stream. Questions may be submitted via e-mail before or during the broadcast. These briefings are open to the public. The 2017 AGM and Investor briefings are available on YouTube. The Company also actively provides updates on social media and print platforms. We will continue to look for new and effective ways to meaningfully engage with our shareholders and stakeholders and the communities where we do business.

EXECUTIVES' COMPENSATION

The Compensation Sub-Committee has responsibility for reviewing and making recommendations in relation to the total compensation of the Group CEO and Senior Executives as well as the overall policy on compensation within the Group, including oversight of major benefit plans and retention strategies. Deliberations over the year included the review of the Group CEO's performance for the prior year and the setting of objectives for the new year; compensation for the senior executives; incentive plans for executives and key incumbents; talent management strategies across the Group; a review of the rules relating to the Company's long term incentive schemes and the Sub-Committee's own Terms of Reference. The Committee is comprised solely of non-executive Directors, members being Professor Gordon Shirley (Chairman), Everton McDonald and Douglas Orane.

DIRECTORS' COMPENSATION

The table below sets out the compensation paid to non-executive Directors in 2017.

BOARD FEES (Payable to Non-Executive Directors only)	
ANNUAL RETAINERS	
All Directors	$1,694,879
Additional Retainer Board Chair	$3,110,704
Additional Retainer Corporate Governance & Nomination Committee Chair	$394,022
Additional Retainer Audit Committee Chair	$1,036,901
Additional Retainer Compensation Sub-Committee Chair	$262,654
ANNUAL RETAINERS	
Board Meetings	None
Audit Committee meetings	$150,161
Other Committee meetings	$50,054

Our Corporate Governance Code and that of the Private Sector Organisation of Jamaica, recognise that levels of remuneration of a company's executives and board members should be sufficient to attract, retain and motivate persons of the quality required to support the success of the business. In addition to the fees set out in the table above, each non-executive Director was granted, in respect of the year 2017, an amount of $847,439 of which the net amount after tax was used exclusively to purchase GraceKennedy shares on the open market. The shares so purchased are subject to a restriction on sale for a period of three (3) years.

Employees who serve on Boards within the Group do not receive additional compensation for service performed in this capacity.

GOOD GOVERNANCE IS A PART OF OUR CULTURE

Adopting sound governance practices has to be a part of the Company's culture. This ultimately creates a framework which supports the Company's commitment to behave ethically and conduct business fairly, while operating as a good corporate citizen.

The Chairman of the Board has continued the practice of convening a meeting of the non-executive Directors immediately following the termination of each Board meeting. This meeting allows non-executive Directors to raise and discuss matters whether arising out of the preceding meeting, or otherwise, in the absence of any member of management.

As the governance authority of this Group, the Corporate Governance & Nomination Committee must ensure that ethical objectives are built into the organisation's structure and strategy. These must be more than statements of our good intentions. Shareholders and other stakeholders demand and deserve good and effective governance.

At the Jamaica Stock Exchange's Best Practices Awards Banquet for 2017, GraceKennedy was joint winner of the coveted JSE/PSOJ Best Practices Award for Corporate Governance and we are pleased that our work in the area of governance has been recognised.

Your Board of Directors and Managers are, with the support of our employees, focused on delivering long-term shareholder value and ensuring a positive impact in the communities where we do business. Despite the challenges of 2017, we look forward to executing on our key strategies in an environment of good governance, consistent with our core values of Honesty, Integrity and Trust.

Gina Phillipps Black
Chair, on behalf of the Corporate Governance & Nomination Committee
1 March 2018

SECTION 09

GraceKennedy Around The World.

The newly upgraded Portmore Pines Hi-Lo Food Store, unveiled to customers on 21 September 2017, boasts a dine-in deli, bakery, juice bar, and a First Global Bank branch, as part of our commitment to making life easier for Hi-Lo shoppers.

Hi-Lo Portmore Opening.

This spacious, 24,000 square foot location saw its main expansion in the Deli & Bakery category, which offers pastries, sandwiches and other ready-to-eat convenience options.

> *This location employs 60 persons, while more than 600 persons are employed throughout the chain.*

Welcome Consumer Brands.

On 1 September 2017, GraceKennedy Group acquired 100 percent ownership of new subsidiary, Consumer Brands Limited, a large player in the local distribution market with sales of over $2 billion annually. Consumer Brands Limited has consistently achieved significant annual revenue growth since its establishment, distributing products for ten other international and local principals through chain and independent supermarkets, wholesalers, pharmacies, beauty supply outlets, and convenience stores.

This acquisition is a natural fit for GraceKennedy's expertise in managing top tier brands and deep distribution channels, and brings welcome expansion to GraceKennedy's range of products distributed in Jamaica. With a valuable portfolio of brands such as the Procter and Gamble (P&G) line of products, which Consumer Brands Limited has distributed in Jamaica since 1992, the products are expected to continue to perform very well under GraceKennedy Foods. Athol Smith, former Managing Director of Consumer Brands, will remain as Chairman until January 2019.


#IMPAY
GK
MPAY
MONEY GOES MOBILE

RemitCare.

Grace Burnett, CEO, GraceKennedy Financial Group, at the launch of RemitCare in Kingston, Jamaica on 5 July 2017. RemitCare is an accident insurance product that provides remittance payments to a receiver for two months in the event that the sender either dies or sustains any accidental bodily injuries, caused directly and immediately by an accident.


GET A QUOTE
ONLINE
TODAY
NLINE
Home | Quotations | Company | Help Centre | Live Chat | Login
Get A Quote
Lower Excess
Vehicle Replacement
Roadside Assistance
Live Chat Support
GK
INSURANCE
Because we care

The team, led by Mrs Grace Burnett, CEO of the GraceKennedy Financial Group at the launch in St Vincent in June.

GK Insurance (Eastern Caribbean) Limited launched in St Vincent & the Grenadines.

The GraceKennedy Financial Group insurance brand, GK Insurance (EC) Limited, was officially launched in St Lucia through its agent, EC Global Insurance Agency in March 2017; and in St Vincent and the Grenadines through affiliate partner Priority Insurance Agency in June 2017. These launches are part of the Group's expansion strategy, and key components in the growth of GraceKennedy's financial services business in the Eastern Caribbean.

> *This expansion brings to five, the number of Caribbean territories in which we provide insurance security to individuals and companies. The others countries being Jamaica, Dominica and the Turks and Caicos Islands.*

From left: Tammara Glaves-Hucey, Assistant General Manager; Andrew Leo-Rhynie, General Manager; and Anne Marie Herman, Agency Manager for EC Global at the launch in St Lucia in March 2017.

QUALITY SINCE 1922

Grace®

FOODS

CANADA

NEW PRODUCTS FROM GRACE FOODS CANADA INC.

Grace Foods Canada Inc. extended its line of organic/ healthy lifestyle products with the launch of **Grace Quinoa** and **Grace Organic Coconut Syrup**. We also launched the new revamped look packaging of our **Grace Plantain Chips**, **Tropical Rhythms**, soup mixes, and new format sleek can coconut water 310ml in keeping with Grace international focus. We also launched the value size 500ml **Grace 100% Coconut Water.**

Coconut syrup is the nectar of the coconut flower, providing a healthy alternative to other sweeteners. Tapped by hand, unbleached, unrefined, vegan, gluten free and GMO free.

Quinoa contains all the nine essential amino acids forming a complete source of protein, double the amount the protein of rice or barley and cooks in under 15 minutes.

UNITED KINGDOM

NEW PRODUCTS FROM UK BEVERAGES

GRACE SAY ALOE REDUCED SUGAR 1,5L: A delicious reduced sugar soft drink, made with real aloe vera pieces and juice with grape flavour. Now consumers can get large packs of aloe with less of the sugar.

GRACE SAY ALOE ZERO ORIGINAL: new formulation with real aloe pieces and improved recipe with zero sugar.

GRACE SAY ALOE MANGO ZERO: A delicious drink made with real aloe vera pieces and juice with mango flavour now with zero added sugar.

GRACE SPARKLING COCONUT WATER: Lightly sparkling coconut water in a range of delicious flavours, with no added sugar.

NURISHMENT ORIGINAL NO ADDED SUGAR VANILLA: There's nothing like the delicious taste of Nurishment but with sugar high on the agenda for UK consumers we've produced a No Added Sugar Vanilla variant to trial. We're proud to say it has the same great taste of Nurishment Original with many people not able to tell the difference in taste tests. With the same 'Rich' claims for vitamins, minerals and protein we are now offering Nurishment Original with a 66% sugar reduction with sugars coming only from milk with a touch of sweetener. Whatever the Nurishment occasion; everyday active, on the go, time pressured or just crazy for the taste of it - There are so many benefits to Nurishment – Milk with More

NURISHMENT MOJO: With over 4 million consumers looking for a 'healthier milkshake' Nurishment Mojo delivers on the best of both worlds as a delicious creamy milkshake that's 'Rich' in 7 vitamins, 5 minerals and 20g of Protein. The first 'Multi-Vitamin Milkshake' to enter the UK Flavoured Milk Market and conforms with category driving trends such as 'No Added Sugar' and 'Natural' ingredients. 46% of adults take multi-vitamins daily or occasionally in the UK, and they're looking for easier ways to top up their daily vitamin and mineral intake. Nurishment Mojo comes in three flavours - Strawberry, Chocolate Brownie and La La Latte and delivers Milk with More to a new consumer base.

SECTION 10

Audited Financial Statements.

FINANCIAL STATEMENTS.

31 DECEMBER 2017

pwc

Independent auditor's report

To the Members of GraceKennedy Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of GraceKennedy Limited (the Company) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Company as at 31 December 2017, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

What we have audited

GraceKennedy Limited's consolidated and stand-alone financial statements comprise:

- the Consolidated and Company statements of financial position as at December 31, 2017;
- the Consolidated and Company income statements for the year then ended;
- the Consolidated and Company statements for comprehensive income for the year then ended;
- the Consolidated and Company statements of changes in equity for the year then ended;
- the Consolidated and Company statements of cash flows for the year then ended; and
- the notes to financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: +1 (876) 922 6230, F:+1 (876) 922 7581, www.pwc.com/jm

L.A. McKnight P.E. Williams A.K. Jain B.L. Scott, B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore

Our audit approach

Audit scope
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we designed and performed audit procedures over various components. The Group comprised 40 reporting components of which, we selected 18 components which represent the principal business units within the Group and covered entities within Jamaica, Barbados, the Eastern Caribbean, Trinidad and Tobago, Canada, the United Kingdom, the United States of America (USA) and Guyana.

Of the 18 components selected, we performed an audit of the complete financial information of 10 components ("full scope components") which were selected based on their size, risk characteristics or both. For the remaining 8 components ("specific scope components"), we performed audit procedures on specific accounts and or analytical procedures within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either due to the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

In relation to the remaining components, none of which are individually greater than 4% of the Group's profit before tax we performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

For components that are in scope of the Group audit, we used component auditors from PwC network firms and non PwC firms who are familiar with the local laws and regulations to perform this audit work. Throughout the audit we had regular meetings and correspondence with management and component auditor teams to follow up progress of work for all components. The group team engagement leader and the senior members of the group engagement team reviewed reports about the audit approach and findings of the component auditors.

pwc

Context

The context of our audit is set by the Group's major activities in 2017. The most significant event of the last twelve months has been the acquisition of 100% of the share capital of Consumer Brands Limited, a distributor of recognised international and local third party branded household products in Jamaica. This has therefore become a new key audit matter for our audit in 2017 given the number of significant management estimates and judgements required to account for the transaction; including valuations of acquired assets and liabilities, the impact of acquisition accounting, recognition and measurement of intangible assets identified.

Our other key audit matters relating to goodwill impairment assessment of the United States of America operations, valuation of pension scheme assets and liabilities and credit risk and impairment of loans and advances to customers continue to be areas which are significant to the group and involves significant levels of judgement by management and expert knowledge as in prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for business combinations (Group) *Refer to notes 2(b), 4(ix) and 39 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.* On 31 August 2017, the Group acquired 100% of the share capital of Consumer Brands Limited (CBL). Management assessed that the acquisition qualified as a business combination resulting in a bargain purchase gain of $418.46 million. Valuations of identifiable net assets acquired were performed as part of the purchase price allocation which resulted in the Group recognising intangible assets in the amount of $576 million and $61 million for supplier and customer relationships respectively. We focused on this area due to the significance of the bargain purchase gain and due to the nature of business combinations whose requirements can be complex and require management to exercise judgement in determining certain estimates. The most significant is the determination of the Purchase Price Allocation Valuation (PPAV) which encompasses:	We read the share purchase agreement and evaluated the appropriateness of the accounting for the acquisition as a business combination against management's accounting policies and the required accounting standards. We discussed with management to understand and evaluate their basis for selecting assumptions. We were assisted by our valuation expert and assessed the reasonableness of the fair value conclusion derived for assets and liabilities acquired. This included evaluating the appropriateness of valuation methodologies utilised to derive the fair value of identified intangible assets and testing the reasonableness of the underlying valuation assumptions and inputs. We achieved this by corroborating the key variables being the business growth and discount rates to historic and prospective financial, industry and economic information, taking into consideration our knowledge of the Group and its industries. Where possible, considered third party sources to challenge future revenue estimates due to changes in the market or actions by competitors. We recalculated the bargain purchase gain, being the difference between the total net consideration paid and the fair value of the net assets acquired for mathematical accuracy.

Key audit matter	How our audit addressed the key audit matter
• Identifying the assets and liabilities acquired and determining their fair values and • Determination of the bargain purchase gain as the valuation methodology involves significant areas of judgement, which are based on the inputs and assumptions in the model, such as business growth rates and discount rates. Management engaged external experts to assist with the determination of the PPAV on the Group's acquisition concluded during the year.	Based on the audit procedures performed, no adjustments were considered necessary.
Goodwill impairment for the United States of America (USA) operations (Group) *Refer to notes 2(g), 4(i) and 11 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.* The total carrying value of goodwill is $1.409 billion of which $930 million relates to the USA operations. The assessment of the carrying value of goodwill involves judgement in relation to forecasting future cash flows and is sensitive to growth rates and discount rates applied to the future cash flows. The USA operations have experienced growth in revenues resulting in profits and the business is almost fully integrated within the Group. As a result, management's focus is now on achieving warehousing and logistics efficiencies. Whilst there has been a reduction compared to prior years, the USA operations continue to receive working capital assistance from the parent company albeit in a reduced capacity, and as such it remains an area of focus.	We tested management's assumptions used in their impairment testing model for goodwill, including the future cash flow projections, discount rates and growth rates applied. The following procedures were performed; We obtained management's discounted cash flow model (DCF) including qualitative and quantitative analyses and obtained an understanding of the process used by management to determine fair value of the reporting unit. We were assisted by our valuation experts to review the appropriateness of the assumptions and methodology used in the DCF. We tested the mathematical accuracy of the underlying calculations included in the DCF model. We agreed 31 December 2017 base year financial information to the audited results and compared the current year's forecast to most recent audited results to evaluate management's ability to accurately forecast financial information We assessed management's key assumptions by comparing them to historical results and economic and industry data where available. Sensitivity analysis was performed by looking at changes in management's revenue growth rates, gross margin, EBITDA margin and WACC, and changes in working capital requirements. We considered subsequent events and their impact on the entity's cash flows and forecasts. We found the assumptions to be consistent and in line with our expectations.

Key audit matter	How our audit addressed the key audit matter
Valuation of pension plan assets and other post-employment obligations (Group and Company)	
Refer to notes 2(m), 4(iii) and 14 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.	We performed the following procedures on the valuations of the pension plan assets and other post-employment obligations as follows:
The Group has defined benefit pension plans with pension plan assets and other post-employment obligations which are significant in the context of the overall statement of financial position of the Group and Company. Pension plan assets amounted to $6.309 billion for both Group and Company and other post-employment obligations amounted to $5.130 billion and $2.443 billion for Group and Company respectively. We focused on this area as the valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. A number of the key assumptions can have a material impact on the calculation of the liability including; • salary increases • inflation • discount rates and; • mortality rates The pension assets include significant pension asset investments, the fair value measurement of which includes some judgement. Management uses external actuaries to assist in determining these assumptions and in valuing the pension plan assets and other post-employment obligations.	We evaluated management's assumptions made in relation to the valuations of the pension assets and other-post employment obligations and the assumptions around salary increases and mortality rates by comparing them to national and industry averages. We agreed the discount and inflation rates used in the valuation of the other post-employment obligations to those issued by the Institute of Chartered Accountants of Jamaica. We tested the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used to calculate the pension scheme surplus or deficit. We engaged our actuarial specialist and liaised with management and their actuary to understand and review the judgements made in determining key economic assumptions used in the calculation of the liability. Based on the audit evidence obtained, we determined that the data and assumptions used by management in the actuarial valuations and determination of the fair value of the pension plan assets and post-employment obligations were supported by the available audit evidence.
Credit risk and impairment of loans and receivables to customers (Group) *Refer to notes 2(h), 4(viii) and 9 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.*	We understood and tested the operating effectiveness of controls impacting impairment and focused on: • credit approval being supported by proper documentation and appropriate loan underwriting in accordance with the Group's policies; • automated identification of loans classified as delinquent by the system and days outstanding correctly reflected; and

Key audit matter	How our audit addressed the key audit matter
The Group has loans receivable balances disclosed in Note 9 which are significant in the context of the overall Group statement of financial position representing 21% of total assets. Included in loan receivables are loans and advances to customers amounting to $27.054 billion, of which $1.578 billion is impaired and $633.3 million is subject to an impairment charge. These loans and advances consist of mortgages, commercial and other loans to customers for which the underlying properties are pledged as collateral. Impairment is a subjective area due to the level of judgement applied by management in determining provisions. We focused on the impairment assessment as the assumptions used for estimating both the amount and timing of future cash flows are complex and involve significant judgment by management, including: • Classification of loans as impaired: we focused on the completeness of the customer accounts that are included in the impairment assessment; • Valuation of real estate property pledged as collateral: this is the most significant repayment source for impaired mortgages and impaired commercial loans. The estimation of collateral values is impacted by market trends as well as the circumstances of the specific property and involves judgment and specialised skills; and • The key assumptions and judgments made by management when calculating the provision for individually impaired loans and loan portfolio by sector collectively. Key assumptions and judgments include the estimated costs to sell the collateral, time to liquidate the pledged collateral and the amount and timing of collection of cash flows from other sources than pledged collateral as well as default rates.	• adjustments for credit losses are supported, correctly posted and appropriately approved. We found that these key controls were designed, implemented and operated effectively, and therefore we determined that we could place reliance on these key controls for the purposes of our audit. In addition, we have performed the following detailed testing procedures: We understood management's basis for determining whether a loan is impaired as disclosed in Note 2(h) and evaluated the reasonableness using our understanding of the Group's lending portfolios and our broader industry knowledge. We tested completeness of the loan provision balance based on non-performing loans within the portfolio and considered the reasonableness of management's assumptions in prior year based on the realised value of the security sold. We tested a sample of performing loans and examined the status of the loan account subsequent to year end to determine if there were any indicators of impairment. For a sample of non-performing loans we gained an understanding of the latest developments at the borrowers and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and determined reasonableness of valuation of real estate collateral based on use of our auditors' expert. Where cash flows are from real estate, sensitivity analyses were performed by varying the time taken to sell the property where considered necessary. We tested management's impairment assessment calculation for loans by sector by evaluating the default rate model, compared inputs to relevant data including historical loss experience for loans with similar risk characteristics. We also tested the calculations for mathematical accuracy, noting no exceptions. No exceptions requiring management to adjust their provision were noted as a result of the procedures we performed.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after this auditor's report date.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

Management is responsible for the preparation of the consolidated and stand-alone financial statements that give a true and fair view in accordance with IFRS and the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and stand-alone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group, the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and stand-alone financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and stand-alone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

pwc

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditor's report is Peter Williams.

PricewaterhouseCoopers

Chartered Accountants
1 March 2018
Kingston, Jamaica

GraceKennedy Limited

Consolidated Statement of Financial Position

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Assets			
Cash and deposits	5	12,084,245	12,276,647
Investment securities	6	31,853,036	23,874,246
Pledged assets	6	4,927,305	15,419,427
Receivables	7	15,848,567	13,688,237
Inventories	8	11,253,140	11,461,283
Loans receivable	9	27,548,329	25,928,057
Taxation recoverable		798,690	424,239
Investments in associates	10	1,798,220	1,743,984
Investment properties	38	618,000	584,000
Intangible assets	11	4,398,127	4,024,272
Fixed assets	12	11,715,661	10,111,671
Deferred tax assets	13	836,477	801,008
Pension plan asset	14	6,308,843	6,142,078
Total Assets		**129,988,640**	**126,479,149**
Liabilities			
Deposits		33,530,523	30,653,888
Securities sold under agreements to repurchase		3,792,720	12,343,432
Bank and other loans	15	16,515,615	13,242,037
Payables	16	22,210,899	20,325,181
Taxation		427,486	572,331
Deferred tax liabilities	13	1,369,294	1,397,657
Other post-employment obligations	14	5,129,990	4,406,015
Total Liabilities		**82,976,527**	**82,940,541**
Equity			
Capital and reserves attributable to the company's owners			
Share capital	17	540,951	534,249
Capital and fair value reserves	18	6,089,245	5,805,054
Retained earnings		32,120,056	29,333,152
Banking reserves	19	3,044,111	2,772,209
Other reserves	20	3,428,449	3,619,261
		45,222,812	42,063,925
Non-Controlling interests	21	1,789,301	1,474,683
Total Equity		**47,012,113**	**43,538,608**
Total Equity and Liabilities		**129,988,640**	**126,479,149**

Approved for issue by the Board of Directors on 1 March 2018 and signed on its behalf by:

Gordon Shirley Chairman

Donald Wehby Group Chief Executive Officer

GraceKennedy Limited

Consolidated Income Statement

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Revenues	23	92,475,652	88,267,589
Expenses	24	(88,944,423)	(84,684,563)
		3,531,229	3,583,026
Other income	25	2,088,006	2,383,733
Profit from Operations		5,619,235	5,966,759
Interest income – non-financial services		378,212	372,276
Interest expense – non-financial services		(662,857)	(676,856)
Share of results of associated companies	10	484,972	441,151
Profit before Taxation		5,819,562	6,103,330
Taxation	27	(1,047,462)	(1,568,468)
NET PROFIT		4,772,100	4,534,862
Attributable to:			
Owners of GraceKennedy Limited	28	4,116,101	4,004,539
Non-Controlling interests	21	655,999	530,323
		4,772,100	4,534,862

		$	$
Earnings per Stock Unit for profit attributable to the owners of the company during the year:	30		
Basic		4.15	4.04
Diluted		4.14	4.03

GraceKennedy Limited

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Profit for the year		4,772,100	4,534,862
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings		23,027	431,032
Remeasurements of post-employment benefit obligations		58,934	664,461
Share of other comprehensive income of associated companies		3,436	24,327
		85,397	1,119,820
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments		(201,407)	(346,623)
Fair value gains		250,677	308,665
Share of other comprehensive income of associated companies		(22,903)	80,322
		26,367	42,364
Other comprehensive income for the year, net of tax		111,764	1,162,184
Total comprehensive income for the year		4,883,864	5,697,046
Attributable to:			
Owners of GraceKennedy Limited		4,248,634	5,156,200
Non-Controlling interests	21	635,230	540,846
		4,883,864	5,697,046

GraceKennedy Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

		Attributable to owners of the parent						Non-Controlling Interest	Total Equity
	Note	Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Banking Reserves $'000	Other Reserves $'000	$'000	$'000
Balance at 1 January 2016		991,920	567,789	5,132,759	25,971,707	2,588,019	3,787,167	1,325,621	39,373,062
Profit for the year		-	-	-	4,004,539	-	-	530,323	4,534,862
Other comprehensive income for the year		-	-	769,791	660,688	-	(278,818)	10,523	1,162,184
Total comprehensive income for 2016		-	-	769,791	4,665,227	-	(278,818)	540,846	5,697,046
Transactions with owners:									
Issue of shares	17 (b)	2,050	37,668	-	-	-	-	-	37,668
Sale of treasury shares	17 (c)	324	13,418	-	-	-	-	-	13,418
Purchase of treasury shares	17 (c)	(5,447)	(205,952)	-	-	-	-	-	(205,952)
Share-based payments:									
Value of services received	17 (h)	-	-	-	-	-	23,590	226	23,816
Transfer of treasury shares to employees	17 (c)	3,532	121,326	25,343	-	-	(146,669)	-	-
Transfer of non-controlling interests	21	-	-	1,983	-	-	-	(1,983)	-
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(390,027)	(390,027)
Dividends paid	29	-	-	-	(1,010,423)	-	-	-	(1,010,423)
Total transactions with owners		459	(33,540)	27,326	(1,010,423)	-	(123,079)	(391,784)	(1,531,500)
Transfers between reserves:									
From capital reserves		-	-	(124,822)	124,822	-	-	-	-
To banking reserves		-	-	-	(184,190)	184,190	-	-	-
To other reserves		-	-	-	(233,991)	-	233,991	-	-
Balance at 31 December 2016		992,379	534,249	5,805,054	29,333,152	2,772,209	3,619,261	1,474,683	43,538,608
Profit for the year		-	-	-	4,116,101	-	-	655,999	4,772,100
Other comprehensive income for the year		-	-	274,506	67,509	-	(209,482)	(20,769)	111,764
Total comprehensive income for 2017		-	-	274,506	4,183,610	-	(209,482)	635,230	4,883,864
Transactions with owners:									
Sale of treasury shares	17 (c)	122	5,027	-	-	-	-	-	5,027
Purchase of treasury shares	17 (c)	(736)	(29,592)	-	-	-	-	-	(29,592)
Share-based payments:									
Value of services received	17 (h)	-	-	-	-	-	56,337	623	56,960
Transfer of treasury shares to employees	17 (c)	889	31,267	6,400	-	-	(37,667)	-	-
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(321,235)	(321,235)
Dividends paid	29	-	-	-	(1,121,519)	-	-	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	-	18,670	(320,612)	(1,410,359)
Transfers between reserves:									
To capital reserves		-	-	3,285	(3,285)	-	-	-	-
To banking reserves		-	-	-	(271,902)	271,902	-	-	-
Balance at 31 December 2017		992,654	540,951	6,089,245	32,120,056	3,044,111	3,428,449	1,789,301	47,012,113

GraceKennedy Limited

Consolidated Statement of Cash Flows

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	(493,760)	11,122,250
Financing Activities			
Loans received		5,284,480	2,949,444
Loans repaid		(2,568,620)	(2,995,936)
Dividends paid by subsidiary to non-controlling interests	21	(321,235)	(390,027)
Purchase of treasury shares	17	(29,592)	(205,952)
Sale of treasury shares	17	5,027	13,418
Issue of shares	17	-	37,668
Interest paid – non financial services		(674,091)	(689,416)
Dividends	29	(1,121,519)	(1,010,423)
		574,450	(2,291,224)
Investing Activities			
Additions to fixed assets[(a)]	12	(2,639,331)	(1,818,363)
Proceeds from disposal of fixed assets		65,518	42,899
Additions to investment properties		-	(38,643)
Additions to investments		(8,087,043)	(6,549,167)
Cash outflow on acquisition of subsidiary	39	(641,970)	-
Proceeds from sale of investments		10,265,348	2,470,937
Net proceeds from disposal of associated company		55,506	-
Additions to intangibles	11	(334,599)	(390,751)
Interest received – non financial services		379,809	373,094
		(936,762)	(5,909,994)
(Decrease)/increase in cash and cash equivalents		(856,072)	2,921,032
Cash and cash equivalents at beginning of year		10,310,801	7,074,059
Exchange and translation (losses)/gains on net foreign cash balances		(52,434)	315,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	9,402,295	10,310,801

The principal non-cash transactions include:

[(a)] Acquisition of fixed assets under finance lease of $32,647,000 (2016: $109,862,000), (Note 12).

GraceKennedy Limited
Company Statement of Financial Position
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Assets			
Cash and deposits	5	1,944,451	2,600,811
Investment securities	6	6,513,598	6,761,609
Receivables	7	1,434,445	1,352,108
Inventories	8	2,521,134	2,689,643
Loans receivable	9	3,359,306	3,175,183
Subsidiaries	34	1,063,372	479,762
Taxation recoverable		231,969	191,885
Investments in associates	10	49,698	49,698
Investments in subsidiaries		15,756,643	14,648,540
Intangible assets	11	222,025	130,014
Fixed assets	12	299,359	299,284
Pension plan asset	14	6,308,843	6,142,078
Total Assets		**39,704,843**	**38,520,615**
Liabilities			
Bank and other loans	15	4,053,268	4,446,639
Payables	16	2,544,670	2,600,965
Subsidiaries	34	3,403,955	2,784,294
Deferred tax liabilities	13	882,998	981,093
Other post-employment obligations	14	2,443,443	2,163,271
Total Liabilities		**13,328,334**	**12,976,262**
Equity			
Share capital	17	540,951	534,249
Capital and fair value reserves	18	404,977	356,298
Retained earnings		25,365,279	24,585,435
Other reserves	20	65,302	68,371
Total Equity		**26,376,509**	**25,544,353**
Total Equity and Liabilities		**39,704,843**	**38,520,615**

Approved for issue by the Board of Directors on 1 March 2018 and signed on its behalf by:

Gordon Shirley Chairman

Donald Wehby Group Chief Executive Officer

GraceKennedy Limited

Company Income Statement

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Revenue	23	17,623,999	16,974,486
Cost of goods sold		(13,746,257)	(13,239,361)
Gross Profit		3,877,742	3,735,125
Other income	25	4,618,770	4,799,017
Administration expenses		(7,115,923)	(7,147,063)
Profit from Operations		1,380,589	1,387,079
Interest income		541,547	549,282
Interest expense		(342,156)	(355,206)
Profit before Taxation		1,579,980	1,581,155
Taxation	27	154,744	156,086
NET PROFIT	28	**1,734,724**	**1,737,241**

GraceKennedy Limited

Company Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	2017 $'000	2016 $'000
Profit for the year	1,734,724	1,737,241
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on revaluation of land and buildings	-	7,534
Remeasurements of post-employment benefit obligations	166,639	713,131
	166,639	720,665
Items that may be subsequently reclassified to profit or loss:		
Fair value gains	42,279	70,192
	42,279	70,192
Other comprehensive income for the year, net of tax	208,918	790,857
Total comprehensive income for the year	1,943,642	2,528,098

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

GraceKennedy Limited

Company Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2016		991,920	567,789	253,229	23,347,752	-	24,168,770
Profit for the year		-	-	-	1,737,241	-	1,737,241
Other comprehensive income for the year		-	-	77,726	713,131	-	790,857
Total comprehensive income for 2016		-	-	77,726	2,450,372	-	2,528,098
Transactions with owners:							
Issue of shares	17 (b)	2,050	37,668	-	-	-	37,668
Sale of treasury shares	17 (c)	324	13,418	-	-	-	13,418
Purchase of treasury shares	17 (c)	(5,447)	(205,952)	-	-	-	(205,952)
Share-based payments:							
Value of services received	20	-	-	-	-	12,774	12,774
Transfer of treasury shares to employees	17 (c)	3,532	121,326	25,343	-	(146,669)	-
Dividends paid	29	-	-	-	(1,010,423)	-	(1,010,423)
Total transactions with owners		459	(33,540)	25,343	(1,010,423)	(133,895)	(1,152,515)
Transfers between reserves:							
To other reserves		-	-	-	(202,266)	202,266	-
Balance at 31 December 2016		992,379	534,249	356,298	24,585,435	68,371	25,544,353
Profit for the year		-	-	-	1,734,724	-	1,734,724
Other comprehensive income for the year		-	-	42,279	166,639	-	208,918
Total comprehensive income for 2017		-	-	42,279	1,901,363	-	1,943,642
Transactions with owners:							
Sale of treasury shares	17 (c)	122	5,027	-	-	-	5,027
Purchase of treasury shares	17 (c)	(736)	(29,592)	-	-	-	(29,592)
Share-based payments:							
Value of services received	20	-	-	-	-	34,598	34,598
Transfer of treasury shares to employees	17 (c)	889	31,267	6,400	-	(37,667)	-
Dividends paid	29	-	-	-	(1,121,519)	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	(3,069)	(1,111,486)
Balance at 31 December 2017		992,654	540,951	404,977	25,365,279	65,302	26,376,509

GraceKennedy Limited
Company Statement of Cash Flows
Year ended 31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	1,979,304	2,474,065
Financing Activities			
Loans received		1,805,086	609,344
Loans repaid		(1,108,119)	(1,121,365)
Purchase of treasury shares	17	(29,592)	(205,952)
Sale of treasury shares	17	5,027	13,418
Issue of shares	17	-	37,668
Interest paid		(348,989)	(365,490)
Dividends	29	(1,121,519)	(1,010,423)
		(798,106)	(2,042,800)
Investing Activities			
Additions to fixed assets	12	(90,808)	(109,236)
Proceeds from disposal of fixed assets		20,630	3,782
Additions to investments		(1,138,110)	(316,802)
Loans receivable, net		(184,123)	(41,437)
Proceeds from sale of investments		1,305,128	220,877
Investment in subsidiary		(1,108,170)	(100,000)
Proceeds from disposal of subsidiary		10,597	53,703
Additions to intangibles	11	(155,400)	(65,343)
Interest received		543,143	550,102
		(797,113)	195,646
Increase in cash and cash equivalents		384,085	626,911
Cash and cash equivalents at beginning of year		1,546,002	868,036
Exchange and translation (losses)/gains on net foreign cash balances		(16,461)	51,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	1,913,626	1,546,002

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification

GraceKennedy Limited (the company) is a company limited by shares, incorporated and domiciled in Jamaica. The registered office of the company is located at 73 Harbour Street, Kingston, Jamaica.

The company is a publicly listed company having its primary listing on the Jamaica Stock Exchange, with further listing on the Trinidad and Tobago Stock Exchange.

The Group is organised into two divisions namely, GK Foods and GK Financial Group. The GK Foods division comprises all the food related companies while the GK Financial Group division comprises all the financial services companies in the Group. For the purpose of segment reporting the Group reports its results under the four segments described below.

The principal activities of the company, its subsidiaries and its associated companies (the Group) are as follows:

Food Trading -
Merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.

Banking and Investments -
Commercial banking; stock brokerage; corporate finance; advisory services; and lease financing.

Insurance -
General insurance and insurance brokerage.

Money Services -
Operation of money transfer services, cambio operations and bill payment services.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed and financial assets, investment properties and financial liabilities.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

Certain amendments and clarifications to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new amendments and clarifications and has put into effect the following, which are immediately relevant to its operations.

- Amendments to IAS 12, 'Income Taxes' (effective for annual periods beginning on or after 1 January 2017). The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The amendment also clarifies that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. There was no impact from the adoption of this amendment.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the current year (continued)

- Amendments to IAS 7, 'Statement of Cash flows' (effective for annual periods beginning on or after 1 January 2017). The amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings; and non-cash changes, such as acquisitions, disposals and unrealised exchange differences. The reconciliation of changes in liabilities arising from financing activities is disclosed in (Note 31).
- Annual improvements to IFRSs 2014 – 2016 cycles. The amendment to IFRS 12,'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2017) clarifies that the disclosure requirements of IFRS 12 apply to interests in entities that are classified as held for sale, except for the summarised information. There was no impact from the adoption of this amendment as the Group does not have interests in entities classified as held for sale.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements a number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVPL. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

  The Group is in the process of assessing the impact of IFRS 9 on its financial statements. A Group Steering Committee with representation from a number of functional areas and lead by the Group Finance Unit was created to oversee the implementation project. The project involves three main phases:

  - Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all instruments, determining stage migration and cure rate thresholds;
  - Phase 2: Scenario Modelling; this includes determination of relevant forward looking scenarios, estimating probabilities of default (PDs) and expected credit losses (ECL);
  - Phase 3: Embedding – This includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

  The Group has substantially completed Phase 1 and Phase 2 and key decisions around classification and measurement, forward looking information and PDs are currently being reviewed.

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 9 (continued)

Classification and measurement

Debt instruments
The standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed.

- *Investment securities*
The Group currently classifies its investment securities as available for sale. Based on the conditions for classification, the Group expects that majority of its investments will meet the 'solely payments of principal and interest' (SPPI) criteria. Debt instruments are largely held to collect contractual cash flows or are liquidated to meet liquidity requirements or maintain a specific interest yield profile. These instruments will be measured at either amortised cost or FVOCI. The change to amortised cost will result in the reversal of cumulative fair value gains/(losses) for related instruments as at 1 January 2018. There is no impact for investments measured at FVOCI.

- *Loans and receivables*
The Group currently classifies its loans and receivables at amortised cost. Based on the conditions for classification, the Group expects that majority of its loans and receivables will meet the SPPI criteria. Loans and receivables are largely held to collect contractual cash flows and will continue to be measured at amortised cost.

Equity instruments
The Group currently classifies its equity instruments as available for sale. With the adoption of IFRS 9, the Group has concluded on the following:

- Measure all trading equity instruments at FVPL. The change will result in related fair value gains/(losses) being transferred from the fair value reserve to retained earnings for instruments measured at FVPL on 1 January 2018.

- The Group has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed.

Financial liabilities
There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Impairment

The new impairment model requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts.

Application of the General Model
The adoption of IFRS 9 will have a significant impact on the Group's impairment methodology. The Group has applied the 'general model' as required under IFRS 9 for debt instruments other than trade receivables. Under this model, the Group is required to assess on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The ECL will be recognised in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. Under current guidance, impairment amount represents the single best outcome; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 9 (continued)

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

Stage 2 – When a financial asset experiences a significant increase in credit risk subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk
The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios
IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.
The Group will use three scenarios that will be probability weighted to determine ECL.

Expected Life
When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Application of the Simplified Approach
IFRS 9 permits the use of a simplified approach for trade receivables. For trade receivables that do not contain a significant financing component, the impairment provision is measured at initial recognition and throughout the life of the receivables using a lifetime ECL. As a practical expedient, a provision matrix can be utilised in determining the lifetime ECLs for trade receivables.

The simplified approach may be utilised for companies within the Group with trade receivables. The lifetime ECLs are determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward looking information.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 9 (continued)

  Presentation and disclosure requirements

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

  Transitional Approach

  The Group will apply the modified retrospective approach as allowed under IFRS 9. Under this approach, cumulative retrospective adjustments will be made against opening retained earnings as at 1 January 2018. Comparatives for 2017 will not be restated.

  The estimated impact relates primarily to the implementation of the ECL requirements. As part of phase 2 and 3, the Group will continue to revise, refine and validate the impairment models and related process controls.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

  The Group is in the process of assessing the impact of IFRS 15 on its financial statements. A Group Steering Committee with representation from a number of functional areas and lead by the Group Finance Unit was created to oversee the implementation project. The project involves three phases:

  - Phase 1: Impact assessment to determine the key potential areas of impact and to develop a plan to address these points throughout the project;

  - Phase 2: Conversion assessment to focus on key areas of impact identified in the first phase and quantification of the required changes to the financial statements; and

  - Phase 3: Embedding - The third phase will integrate the new accounting standard into the existing reporting structure and will ensure that all new processes are in place to effectively report under the new requirements. This will include training staff to be familiar with the new requirements, converting and validating data, and drafting disclosures for the financial statements.

  The Group has completed Phase 1 of the project, and key decisions around the transition approach, practical expedients and data and system needs are currently being reviewed. Some aspects of data gathering have commenced for Phase 2 to assist with the determination of the potential financial impact.

  Based on Phase 1 of the implementation project, The Group has assessed the effects of applying the new standard on its financial statements and has identified the main areas of impact as follows:

  Variable consideration
  A number of contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 15 (continued)

  Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained. As such the application of the constraint may result in more revenue being deferred than under current IFRS.

  (i) Trade discounts, volume rebates and other incentives
  When a contract with a customer provides for volume discounts or other incentives, the Group recognises an adjustment to revenue at the point in time when the discount or incentive is provided to the customer. Under IFRS 15, the Group is required to recognise an adjustment to the transaction price in accordance with the Group's assessment of the estimated level of discounts and other incentives expected to be provided under the contract. This is expected to result in earlier recognition of discounts and other incentives.

  (ii) Rights of return
  When a contract with a customer provides a right to return the good within the specified period, the Group currently recognises a provision for sales returns based on historical experience. Under IFRS 15, because the contract allows the customer to return the products, the consideration received from the customer is variable. The Group is assessing the method that will be utilized to estimate the goods that will be returned.

  Customer loyalty programs
  The Group currently allocates total consideration received to loyalty points using the residual value method. IFRS 15 requires that the total consideration received must be allocated to the points based on relative stand-alone selling prices rather than based on the residual value method. This is expected to result in higher amounts being allocated to the goods sold and result in an earlier recognition of a portion of the revenue.

  Impact on the financial services segment
  Areas most affected include, but are not limited to, credit cards – interchange, annual and loyalty scheme fees, commissions, advisory contracts and bundled products. The Group is currently reviewing contracts in the scope of IFRS 15 for the financial services segment to ascertain applicability and to assess the potential financial impact.

  Presentation and disclosure requirements
  IFRS 15 introduces expanded disclosure requirements and changes in presentation. The Group expects that the notes to the financial statements will be expanded to include items such as disclosure of significant judgements made when determining the transaction price of those contracts that include variable consideration and how the transaction price has been allocated to the performance obligations.

  As a part of phase 2 and 3 of the implementation project, the Group will test the systems, controls, and processes required to collect and disclose the required information.

- Amendment to IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019). This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. The Group is currently assessing the impact of IFRS 16.
- Amendments to IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018). This amendment addresses the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional. IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective. The Group is currently assessing whether to use temporary exemption or overlay approach as permitted under the standard.
- Amendments to IFRS 2, 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2018). The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group is currently assessing the impact of this amendment.
- Amendment to IAS 40, 'Investment property' (effective for annual periods beginning on or after 1 January 2018). These amendments clarify that to transfer to, or from investment properties, there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The Group is currently assessing the impact of this amendment.
- Annual improvements to IFRSs 2014 – 2016 cycles. The amendment to IAS 28,'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The Group will apply this amendment where applicable to future transactions.
- IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The Group is currently assessing the impact of this standard.
- Amendment to IFRS 9, 'Financial instruments on prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The Group is currently assessing the impact of this amendment.
- Amendments to IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2019). These amendments clarify that companies account for long term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. The Group currently applies the equity method to its associated companies.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRIC 23,'Uncertainty over income tax treatments' (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority. The Group is currently assessing the impact of this interpretation.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

(b) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Entity	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held by the parent company %	Proportion of ordinary shares held by the Group %	Proportion of ordinary shares held by non-controlling interests %
Consumer Brands Limited	Jamaica	General goods distributor	100	100	-
GK Investments Limited and its subsidiary –	Jamaica	Lease financing	100	100	-
Greenfield Media Productions Limited	Jamaica	Media rights holder	-	55	45
GraceKennedy Financial Group Limited and its subsidiaries –	Jamaica	Holding company	100	100	-
Allied Insurance Brokers Limited	Jamaica	Insurance brokerage	-	100	-
GK General Insurance Company Limited	Jamaica	General Insurance	-	100	-
GraceKennedy Money Services Caribbean SRL and its subsidiary –	Barbados	Holding company	-	75	25
GraceKennedy Remittance Services Limited and its subsidiaries –	Jamaica	Money services	-	75	25
Grace Kennedy Currency Trading Services Limited	Jamaica	Money services	-	75	25
GraceKennedy Payment Services Limited	Jamaica	Money services	-	75	25
GraceKennedy Money Services (Anguilla) Limited	Anguilla	Money services	-	75	25
GraceKennedy Money Services (Antigua & Barbuda) Limited	Antigua & Barbuda	Money services	-	75	25
GraceKennedy Money Services (Montserrat) Limited	Montserrat	Money services	-	75	25
GraceKennedy Money Services (St. Kitts & Nevis) Limited	St. Kitts & Nevis	Money services	-	75	25
GraceKennedy Money Services (St. Vincent and the Grenadines) Limited	St. Vincent and the Grenadines	Money services	-	75	25
GraceKennedy Money Services (BVI) Limited	British Virgin Islands	Money services	-	75	25
GraceKennedy Money Services (Cayman) Limited	Cayman Islands	Money services	-	75	25
GraceKennedy Money Services (Turks & Caicos Islands) Limited	Turks & Caicos Islands	Money services	-	75	25
Grace, Kennedy Remittance Services (Guyana) Limited	Guyana	Money services	-	75	25
GraceKennedy (Trinidad & Tobago) Limited	Trinidad and Tobago	Money services	-	75	25
GK Insurance (Eastern Caribbean) Limited (formerly EC Global Insurance Company Limited)	St. Lucia	General Insurance	-	89.3	10.7
GK Insurance Brokers Limited	Turks & Caicos	Insurance brokerage	-	100	-
Knutsford Re	Turks & Caicos	Insurance	-	100	-
First Global Holdings Limited and its subsidiaries –	Jamaica	Holding company	25	100	-
First Global Bank Limited	Jamaica	Banking	-	100	-
GK Capital Management Limited	Jamaica	Investment manager	-	100	-
GraceKennedy Properties Limited	Jamaica	Property rental	-	100	-
Grace Foods International Limited	Jamaica	Dormant	100	100	-
GK Foods & Services Limited	Jamaica	Food trading	100	100	-
International Communications Limited	Jamaica	Dormant	100	100	-

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Entity	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held by the parent company %	Proportion of ordinary shares held by the Group %	Proportion of ordinary shares held by non-controlling interests %
Grace Foods Limited	St. Lucia	Brand owner	100	100	-
GraceKennedy (Belize) Limited	Belize	Food trading	100	100	-
Grace Foods Canada Inc. (formerly GraceKennedy (Ontario) Inc.)	Canada	Food trading	100	100	-
Grace Kennedy (Guyana) Limited	Guyana	Dormant	100	100	-
Grace Kennedy (USA) Inc. and its subsidiary –	USA	Food trading	100	100	-
Grace Foods (USA) Inc. and its subsidiary –	USA	Food trading	-	100	-
GraceKennedy Foods (USA) LLC	USA	Food trading	-	100	-
GraceKennedy (St. Lucia) Limited and its subsidiaries –	St. Lucia	Holding company	100	100	-
Graken Holdings Limited	Turks & Caicos	Dormant	-	100	-
GK Foods (UK) Limited and its subsidiaries –	United Kingdom (UK)	Food trading	-	100	-
Grace Foods UK Limited	UK	Food trading	-	100	-
Enco Products Limited	UK	Food trading	-	100	-
Funnybones Foodservice Limited	UK	Food trading	-	100	-
Chadha Oriental Foods Limited	UK	Food trading	-	100	-
GraceKennedy Ghana Limited	Ghana	Food trading	-	100	-
GK Foods Limited	Nigeria	Food trading	-	100	-

The special purpose entity consolidated is the company's employee investment trust.

During the year the Group acquired 100% of the share capital of Consumer Brands Limited (Note 39).

The Group liquidated Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited and Horizon Shipping Limited during the year. This resulted in a gain being realised on liquidation which is included in Other Income within *gain on disposal of investments* (Note 25).

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of associated companies' in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the company's statement of financial position, investment in associates is shown at cost.

The Group's associated companies are as follows:

	Financial Reporting Year-end	Country of Incorporation	Nature of Business	Group's Percentage Interest	
				2017	2016
CSGK Finance Holdings Limited	31 December	Barbados	Banking	40.0	40.0
Dairy Industries (Jamaica) Limited	31 December	Jamaica	Food trading	50.0	50.0
Trident Insurance Company Limited	30 June	Barbados	Insurance	-	30.0
Telecommunications Alliance Limited	31 December	Jamaica	Dormant	49.0	49.0

The results of associates with financial reporting year-ends that are different from the Group are determined by prorating the results for the audited period as well as the period covered by management accounts to ensure that a year's result is accounted for where applicable.

The Group disposed of its 30% interest in Trident Insurance Company Limited during the year (Note 10).

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions.

(e) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement in other income.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Foreign currency translation (continued)

Foreign exchange gains and losses are presented in the income statement within 'other income'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are recognised in other comprehensive income.

Group companies
The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(f) Fixed assets

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount. All other fixed assets are carried at cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Increases in carrying amounts arising on revaluation are credited to other comprehensive income and shown in capital reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against capital reserves directly in equity; all other decreases are charged to the income statement.

Depreciation is calculated on the straight line basis to allocate assets' cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings and leasehold buildings and improvements	10 - 60 years
Plant, machinery, equipment, furniture and fixtures	3 - 10 years
Vehicles	3 - 5 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Fixed assets (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit. When revalued assets are sold, the amounts included in capital and fair value reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(g) Intangible assets

Goodwill
Goodwill is recorded at cost and represents the excess of the value of consideration paid over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Computer software
Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the software, which ranges from 3 to 5 years.

Distribution channel agreements
Distribution channel agreements are recorded at cost and represent the value of the consideration paid to acquire rights to distribute beverages in specified routes. These costs are amortised over the estimated useful life of the agreements, which is 10 years.

Policy contracts
Policy contracts are amortised over their estimated useful life which is 15 years and are carried at cost less accumulated amortisation. The cost of policy contracts comprises its purchase price and professional fees directly attributed to acquiring the asset.

Brands
Brands are recorded at cost and represent the value of the consideration paid to acquire several well established and recognised beverage and ethnic food brands. These costs are amortised over the estimated useful life of the brands, which ranges from 5 to 20 years.

Customer relationships
Customer relationships are recorded at cost and represent the value of the consideration paid to acquire customer contracts and the related customer relationships with several outlet operators and insurance clients. These costs are amortised over the estimated useful life of the relationships, which is between 5 to 15 years.

Supplier relationships
Supplier relationships are recorded at cost and represent the value of the consideration paid to acquire rights to distribute consumer products in specified locations. These costs are amortised over the estimated useful life of the relationships, which is between 10 to 12 years.

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The accounting policy for trade and insurance receivables is dealt with in Note 2 (o). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled with 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as such in the statement of financial position.

Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category (fair value through profit or loss or available-for-sale), under the provisions of IAS 39 (Amendment). Financial assets which have been reclassified to this category, meet the definition of loans and receivables as a result of the market for these securities becoming inactive during the financial year.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that the full amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced, by recording specific provisions for credit losses, to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the statement of financial position date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The Bank of Jamaica regulations require that interest on non-performing bank loans be taken into account on the cash basis. IFRS requires the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to credit loss expense in the income statement.

Statutory and other regulatory loan loss reserve requirements that exceed IFRS provisions which are charged to the income statement are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in investment securities on the statement of financial position.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments previously recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of revenue, other income and finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(i) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives to manage its own exposure to foreign exchange risk and interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each statement of financial position date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

Gains and losses from the changes in the fair value of derivatives are included in the income statement.

(j) Investments in subsidiaries

Investments in subsidiaries are stated at cost.

(k) Impairment of non-financial assets

Fixed assets and other assets, excluding goodwill, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(l) Income taxes

Taxation expense in the income statement comprises current and deferred tax charges.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted or substantively enacted at statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(l) Income taxes (continued)

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantively enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Investment tax credits are benefits received for investments in specific qualifying assets related to capitalised expenditure. Any portion of these tax credits which are received but not fully utilised in the same year are carried forward for offset against future taxes and are recognised similarly to unused tax credits as a deferred tax asset.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income or equity, in which case, deferred tax is also dealt with in other comprehensive income or equity.

(m) Employee benefits

Pension obligations

The Group participates in a defined contribution plan whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

Pension plan assets

The Group also operates a defined benefit plan. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the statement of financial position date and the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of Government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some Group companies provide post-employment health care benefits, group life, gratuity and supplementary plans for their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits

The Group operates equity-settled, share-based compensation plans. Directors, senior executives, management and key employees are awarded stock options and/or restricted stock grants. The fair value of the employee services received in exchange for the grant of the options or restricted units is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the options or restricted units granted, excluding the impact of non-market vesting conditions. When options are exercised or restricted units are vested, the proceeds received net of any transaction costs or the value transferred are credited to share capital.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Termination benefits
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

Incentive plans
The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's owners after certain adjustments. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(n) Inventories
Inventories are stated at the lower of average cost and net realisable value. In the case of the company, cost represents invoiced cost plus direct inventory-related expenses. For the subsidiaries, costs are determined by methods and bases appropriate to their operations. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(o) Trade and insurance receivables
Trade and insurance receivables are carried at original invoice amount (which represents fair value) less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement. Impairment testing of trade receivables is described in Note 3.

(p) Cash and cash equivalents
Cash and cash equivalents are carried on the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within bank and other loans on the statement of financial position.

(q) Payables
Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are initially recognised at fair value and subsequently stated at amortised cost.

(r) Insurance business provisions

Claims outstanding
Provision is made to cover the estimated cost of settling claims arising out of events which have occurred by the statement of financial position date, including claims incurred but not reported, less amounts already paid in respect of these claims. Provision for reported claims is based on individual case estimates.

Insurance reserves
Provision is made for that proportion of premiums written in respect of risks to be borne subsequent to the year-end under contracts of insurance entered into on or before the statement of financial position date. Provision is also made to cover the estimated amounts in excess of unearned premiums required to meet future claims and expenses on business in force.

Reinsurance ceded
The insurance subsidiary cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the statement of financial position unless the right of offset exists.

Deferred policy acquisition costs
The costs of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(s) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed; for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(t) Deposits
Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method.

(u) Securities purchased/sold under resale/repurchase agreements
The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and expense are recorded on the accrual basis.

(v) Borrowings
Bank loans and overdrafts are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(w) Borrowings costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Leases
As lessee
Leases of fixed assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance charge is charged to the income statement over the lease period. The fixed asset acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

As lessor
When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned income. Lease income is recognised over the term of the lease so as to reflect a constant periodic rate of return.

(y) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's owners.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(z) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax or applicable sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods – wholesale

The Group manufactures and sells a range of general and food items in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied. The general and food items are often sold with volume discounts; customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(ii) Sales of goods – retail

The Group operates a chain of retail outlets for selling general and food items. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit. It is the Group's policy to sell its products to the retail customer with a right to return within 30 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Group operates a loyalty programme in which the parent company has contracted certain subsidiaries to participate in the programme in the capacity of an issuer and/or redeemer of loyalty points. Under this programme, customers accumulate points for purchases made at certain subsidiaries within the Group, which entitle them to goods and services at redeeming subsidiaries and/or third party suppliers. Commission is recognised by the participating subsidiaries in their capacity as agents at the point the parent company is obligated to supply the awards and is entitled to receive consideration for doing so, that is, when points are issued. Revenue is recognised on a gross basis by the parent company in the capacity of principal at the point at which the company has fulfilled its obligations in respect of the awards, that is when points are issued. Amounts payable to participating subsidiaries and third parties for acting as suppliers in the programme are recognised by the parent company as an expense. One of the Group's subsidiaries operates a loyalty programme under similar arrangements to that of the parent company.

(iii) Sales of services

The Group sells insurance and financial services to the general public. These services are provided on a time and fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue is generally recognised at the contractual rates. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Fees and commission income are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(iv) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(aa) Dividends
Dividends are recorded as a deduction from equity in the period in which they are approved.

(ab) Investment properties
Investment properties, principally comprising land and buildings, are held for long-term rental yields and capital appreciation and are treated as long-term investments. They are measured initially at cost, including related transaction costs and are subsequently carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the financial period in which they are incurred. Fair value gains or losses are recorded in income.

(ac) Discontinued operations
A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management

The Group's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. It provides policies for overall risk management, as well as principles and procedures covering the specific areas of risk. The Board has established committees/departments for managing and monitoring risks, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk, as follows:

(i) Audit Committee

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Group Risk Management and Internal Audit. Group Risk Management establishes a framework within which the opportunities and risks affecting the Group may be measured, assessed, and effectively controlled. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Corporate Governance Committee

The Corporate Governance Committee assists the Board in enhancing the Group's system of corporate governance by establishing, monitoring and reviewing the principles of good governance with which the Group and its directors will comply. The Committee promotes high standards of corporate governance based on the principles of openness, integrity and accountability taking into account the Group's existing legal and regulatory requirements. It establishes such procedures, policies and codes of conduct to meet these aims as it considers appropriate. Qualified individuals are identified and recommended by the Board to become members. It also leads the Board of Directors in its annual review of the Board's performance.

(iii) Asset and Liability Committees/Investment Committees

The Asset and Liability Committees (ALCOs) and Investment Committees are management committees responsible for monitoring and formulating investment portfolios and investment strategies within the Insurance, Banking and Investment, and Corporate divisions. The ALCOs are also responsible for monitoring adherence to trading limits, policies and procedures that are established to ensure that there is adequate liquidity as well as monitoring and measuring capital adequacy for regulatory and business requirements. To discharge these responsibilities, the ALCOs establish asset and liability pricing policies to protect the liquidity structure as well as assesses the probability of various liquidity shocks and interest rate scenarios. They also establish and monitor relevant liquidity ratios and statement of financial position targets. Overall, the Committees ensure compliance with the policies related to the management of liquidity risk, interest rate risk, and foreign exchange risk.

(iv) Corporate Finance Department

The Corporate Finance Department is responsible for managing the Group's assets and liabilities and the overall capital structure. It is also primarily responsible for the funding and liquidity risks of the Group. Corporate Finance identifies, evaluates and manages financial risks in close co-operation with the Group's operating business units.

The most important types of risk are insurance risk, reinsurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk

The Group issues contracts that transfer insurance risk. This section summarises the risk and the way it is managed by the Group.

Insurance risk for the Group attributable to policies sold by its general insurance underwriting subsidiaries, is borne by those subsidiaries. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore, unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the Group's insurance contracts is, however, concentrated within Jamaica.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Where applicable, contracts are underwritten by reference to the commercial replacement value of the properties or other assets and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for other assets and contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Management sets policy and retention limits based on guidelines set by the Board of Directors of the subsidiaries. The policy limit and maximum net retention of any one risk for each class of insurance per customer for the year are as follows:

	2017		2016	
	Policy Limit	**Maximum Net Retention**	**Policy Limit**	**Maximum Net Retention**
	$'000	**$'000**	**$'000**	**$'000**
Commercial property:				
Fire and consequential loss	1,243,041	9,944	1,279,391	10,235
Boiler and machinery	615,305	6,992	639,696	7,197
Engineering	615,305	6,992	639,696	7,197
Burglary, money and goods in transit	31,076	31,076	31,985	22,389
Glass and other	31,076	31,076	31,985	22,389
Liability	383,817	38,382	383,817	38,382
Marine, aviation and transport	74,582	1,865	76,763	3,838
Motor	31,000	16,000	31,000	16,000
Pecuniary loss:				
Fidelity	31,076	31,076	31,985	22,389
Surety/Bonds	142,950	28,590	50,000	10,000
Personal accident	31,076	31,076	31,985	22,389
Personal property	1,243,041	9,944	1,279,391	10,235

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Sensitivity Analysis of Actuarial Liabilities

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

Actuarial Assumptions

(i) In applying the noted methodologies, the following assumptions were made:

- Claims inflation has remained relatively constant and there have been no material legislative changes in the Jamaican civil justice system that would cause claim inflation to increase dramatically.
- There is no latent environmental or asbestos exposure embedded in the loss history.
- The case reserving and claim payments rates have and will remain relatively constant.
- The overall development of claims costs gross of reinsurance is not materially different from the development of claims costs net of reinsurance. This assumption is supported by:
  - The majority of the reinsurance program consists of proportional reinsurance agreements.
  - The non-proportional reinsurance agreements consist primarily of high attachment points.
- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the insurance regulations.

(ii) Provision for adverse deviation assumptions

The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin for adverse deviation in each assumption.

Reserves have been calculated on an undiscounted basis as well as on a discounted basis with a risk load added in. Where the undiscounted reserve was larger than the discounted reserve including the calculated provision for adverse deviation, the undiscounted amount was chosen. This assumes that holding reserves at an undiscounted amount includes an implicit risk load.

(iii) Scenario testing

The two major assumptions that determine reserve levels are:

- The selection of a-priori loss ratios within the Bornhuetter-Ferguson methods (Note 4).
- The selection of loss development factors.

These factors have been stochastically modelled using various confidence intervals to determine the impact on the net reserves. The net reserves of $2,844,404,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by $103,886,000/($104,113,000).

Development Claim Liabilities

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The table below illustrates how the Group's estimate of the ultimate claims liability for accident years 2008 - 2016 has changed at successive year-ends, up to 2017. Updated unpaid claims and adjustment expenses (UCAE) and claims incurred but not reported (IBNR) estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities (continued)

		2008 & prior $'000	2009 $'000	2009 & prior $'000	2010 $'000	2010 & prior $'000	2011 $'000	2011 & prior $'000	2012 $'000	2012 & prior $'000	2013 $'000	2013 & prior $'000	2014 $'000	2014 & prior $'000	2015 $'000	2015 & prior $'000	2016 $'000	2016 & prior $'000	2017 $'000	2017 & prior $'000
2008	UCAE, end of year	1,126,087																		
	IBNR, end of year	57,087																		
2009	Paid during year	499,068	584,808	1,083,876																
	UCAE, end of year	746,310	519,811	1,266,121																
	IBNR, end of year	4,867	50,684	55,551																
	Ratio: excess (deficiency)	(5.67%)																		
2010	Paid during year	231,265	236,570	467,835	559,019	1,026,854														
	UCAE, end of year	566,103	307,036	873,139	1,382,399	2,255,538														
	IBNR, end of year	-	-	-	63,254	63,254														
	Ratio: excess (deficiency)	(9.57%)		(1.46%)																
2011	Paid during year	136,872	100,905	237,777	265,315	503,092	558,956	1,062,048												
	UCAE, end of year	295,347	214,227	509,574	300,526	810,100	657,984	1,468,084												
	IBNR, end of year	-	-	-	2,365	2,365	67,945	70,310												
	Ratio: excess (deficiency)	1.74%		8.06%		43.27%														
2012	Paid during year	83,820	50,693	134,513	77,639	212,152	317,684	529,836	558,328	1,088,164										
	UCAE, end of year	247,207	161,614	408,821	257,595	666,416	435,706	1,102,122	679,277	1,781,399										
	IBNR, end of year	-	-	-	-	-	-	-	78,759	78,759										
	Ratio: excess (deficiency)	(1.27%)		5.50%		40.41%		(6.08%)												
2013	Paid during year	91,984	37,614	129,598	57,095	186,693	149,482	336,175	368,692	704,867	649,468	1,354,335								
	UCAE, end of year	281,436	151,608	433,044	249,243	682,287	418,219	1,100,506	504,715	1,605,221	789,528	2,394,749								
	IBNR, end of year	-	-	-	-	-	-	-	10,023	10,023	80,193	90,216								
	Ratio: excess (deficiency)	(11.94%)		(6.14%)		31.68%		(27.83%)		(24.73%)										
2014	Paid during year	55,816	26,701	82,517	57,206	139,723	110,333	250,056	168,488	418,544	402,767	821,311	601,694	1,423,005						
	UCAE, end of year	207,549	118,184	325,733	186,061	511,794	321,477	833,271	386,712	1,219,983	527,272	1,747,255	613,861	2,361,116						
	IBNR, end of year	-	-	-	-	-	-	-	-	-	18,964	18,964	78,446	97,410						
	Ratio: excess (deficiency)	(10.41%)		(4.26%)		33.01%		(26.71%)		(25.98%)		(4.13%)								
2015	Paid during year	34,215	26,722	60,937	34,288	95,225	97,842	193,067	91,690	284,757	124,369	409,126	280,568	689,694	587,957	1,277,651				
	UCAE, end of year	125,975	67,710	193,685	129,182	322,867	214,429	537,296	275,706	813,002	416,124	1,229,126	365,129	1,594,255	668,734	2,262,989				
	IBNR, end of year	-	-	-	-	-	-	-	(12,863)	(12,863)	(9,377)	(22,240)	18,167	(4,073)	128,212	124,139				
	Ratio: excess (deficiency)	(6.41%)		1.12%		37.05%		(20.02%)		(18.72%)		1.92%		7.27%						
2016	Paid during year	18,135	43,736	61,871	19,519	81,390	35,161	116,551	42,236	158,787	70,412	229,199	109,493	338,692	333,115	671,807	639,633	1,311,440		
	UCAE, end of year	109,378	36,557	145,935	67,458	213,393	154,765	368,158	231,604	599,762	332,256	932,018	302,099	1,234,117	388,349	1,622,466	694,423	2,316,889		
	IBNR, end of year	-	-	-	-	-	-	-	-	-	(13,373)	(13,373)	(15,243)	(28,616)	30,626	2,010	116,352	118,362		
	Ratio: excess (deficiency)	(6.54%)		0.05%		38.26%		(16.60%)		(16.48%)		4.29%		9.14%		3.81%				
2017	Paid during year	15,392	76,502	91,894	14,788	106,682	28,060	134,742	38,045	172,787	47,580	220,367	65,503	285,870	108,887	394,757	376,045	770,802	957,866	1,728,668
	UCAE, end of year	105,653	25,435	131,088	48,839	179,927	70,036	249,963	156,133	406,096	265,145	671,241	227,086	898,327	290,835	1,189,162	373,269	1,562,431	808,177	2,370,608
	IBNR, end of year	-	-	-	-	-	-	-	(10,367)	(10,367)	(10,686)	(21,053)	(13,167)	(34,220)	(16,683)	(50,903)	16,096	(34,807)	143,069	108,262
	Ratio: excess (deficiency)	(7.53%)	(9.53%)	(5.78%)	60.25%	35.10%	(11.39%)	(17.68%)	(12.78%)	(14.80%)	(3.43%)	6.23%	3.30%	11.40%	10.14%	7.64%	5.60%	5.62%		

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

To limit its exposure to potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programmes used by the Group are summarised below:

a) The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between $1,865,000 and $38,382,000 (2016: $3,838,000 and $38,382,000).

b) The Group utilises reinsurance treaties to reduce its net retained risk. The risk is spread over several reinsurers all of whom are AM Best or S&P rated at A or better.

c) Excess of loss reinsurance is also purchased to cover the retained risk in the event of a catastrophe as well as for large motor losses.

d) The amount of reinsurance recoveries recognised during the period is as follows:

	Group	
	2017	2016
	$'000	$'000
Property	1,936,168	715,955
Motor	41,163	29,903
Marine	997	3,281
Liability	(1,293)	18,419
Pecuniary loss	(1,219)	(2,588)
Accident	(1,857)	1,458
	1,973,959	766,428

(c) Financial risk

The Group is exposed to financial risk through its financial assets, reinsurance assets and insurance liabilities. The most important components of this financial risk are credit risk, cash flow risk and market risk (interest rate risk and currency risk).

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit exposures arise principally from the Group's receivables from customers, principals, agents, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Credit review process

The Group has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of borrowers and other counterparties to meet interest, capital and other repayment obligations.

(a) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit policy states that each customer must be analysed individually for creditworthiness prior to the Group offering them a credit facility. Customers may be required to provide a banker's guarantee and credit limits are assigned to each customer. These limits are reviewed at least twice per year. The Group has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Customer credit risks are monitored according to credit characteristics such as whether it is an individual or company, geographic location, industry, ageing profile, and previous financial difficulties. Special negotiated arrangements may extend the credit period to a maximum of 3 months. Trade and other receivables relate mainly to the Group's retail and direct customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The Group's average credit period for the sale of goods is 1 month. The Group has provided fully for all receivables over 6 months based on historical experience which dictates that amounts past due beyond 6 months are generally not recoverable. Trade receivables between 3 and 6 months are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

(b) Loans and leases

The Group assesses the probability of default of individual counterparties using internal ratings. Customers of the Group are segmented into three rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

Group's rating	Description of the grade	
1	Low risk	– Excellent credit history
2	Standard risk	– Generally abides by credit terms
3	Sub-Standard	– Late paying with some level of impairment

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

(c) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The insurance subsidiaries' Risk and Reinsurance Department assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(d) Premium and other receivables

The respective credit committees within the Group examine the payment history of significant contract holders with whom they conduct regular business. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal Audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis is carried out by the insurance subsidiaries' Risk and Reinsurance Department.

(e) Investments

The Group limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

Loans and leases - mortgages over residential and commercial properties, charges over business assets such as premises, equipment, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.

Securities lending and reverse repurchase transactions – cash or securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and from individual owners for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 3 months or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, infringement of the original terms of the contract, or impairment of collateral.

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Impairment (continued)

Individually assessed allowances are provided for financial assets that are above materiality thresholds based on a review conducted at least annually, or more regularly, when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The impairment provision shown in the statement of financial position at year-end is derived from each of the three internal rating grades. However, the impairment provision comes from the last rating class (sub-standard). The tables below show the Group's and company's loans, leases, premium and trade receivables and the associated impairment provision for each internal rating class:

Group's rating

	2017		2016	
	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000
Low risk	6,712	-	37,663	-
Standard risk	40,244,889	-	36,460,525	-
Sub-Standard	2,173,335	1,086,977	1,942,934	1,002,470
	42,424,936	1,086,977	38,441,122	1,002,470

Company's rating

	2017		2016	
	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000
Standard risk	4,620,466	-	4,351,693	-
Sub-Standard	170,145	70,672	172,236	100,448
	4,790,611	70,672	4,523,929	100,448

Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as reported in the statement of financial position.

This represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit Risk (continued)

Loans and leases, premium and trade receivables

Credit quality of loans and leases, premium, trade and other receivables are summarised as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Neither past due nor impaired -				
Low risk	6,712	37,663	-	-
Standard risk	37,189,410	33,561,765	4,436,202	4,192,639
	37,196,122	33,599,428	4,436,202	4,192,639
Past due but not impaired	3,055,479	2,898,760	184,264	159,054
Impaired	2,173,335	1,942,934	170,145	172,236
Gross	42,424,936	38,441,122	4,790,611	4,523,929
Less: provision for credit losses	(1,086,977)	(1,002,470)	(70,672)	(100,448)
Net	41,337,959	37,438,652	4,719,939	4,423,481

Ageing analysis of loans and leases, premium and trade receivables that are past due but not impaired:

Loans and leases, premium and trade receivables that are less than 3 months past due are not considered impaired. As of 31 December 2017, loans and leases, premium and trade receivables of $3,055,479,000 (2016: $2,898,760,000) and $184,264,000 (2016: $159,054,000) for the Group and company respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Less than 1 month	1,454,582	1,420,277	-	-
Within 1 to 3 months	844,494	1,002,915	148,685	145,587
Over 3 months	756,403	475,568	35,579	13,467
	3,055,479	2,898,760	184,264	159,054

As of 31 December 2017, loans and leases, premium and trade receivables of $2,173,335,000 (2016: $1,942,934,000) and $170,145,000 (2016: $172,236,000) for the Group and company respectively were impaired. The amount of the provision was $1,086,977,000 (2016: $1,002,470,000) and $70,672,000 (2016: $100,448,000) for the Group and company respectively. There are no financial assets other than loans, leases, premium and trade receivables that are past due.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of the impaired loans and lease receivables is as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
3 to 6 months	539,744	-	-	-
Over 6 months	1,045,543	1,457,568	-	-
	1,585,287	1,457,568	-	-

Movements on the provision for impairment of loans and leases are as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At 1 January	588,904	377,325	-	-
Provision for receivables impairment	51,452	325,311	-	-
Receivables written off during the year as uncollectible	-	(113,732)	-	-
Unused amounts reversed	(68)	-	-	-
At 31 December	640,288	588,904	-	-

The ageing of the impaired premium and trade receivables is as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
3 to 6 months	291,063	148,103	88,305	56,284
Over 6 months	296,985	337,263	81,840	115,952
	588,048	485,366	170,145	172,236

Movements on the provision for impairment of premium and trade receivables are as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At 1 January	413,566	338,254	100,448	97,981
Provision for receivables impairment	181,900	177,865	13,710	24,033
Receivables written off during the year as uncollectible	(115,197)	(77,363)	(28,439)	(11,575)
Unused amounts reversed	(33,580)	(25,190)	(15,047)	(9,991)
At 31 December	446,689	413,566	70,672	100,448

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The overall ageing of the impaired loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
3 to 6 months	830,807	148,103	88,305	56,284
Over 6 months	1,342,528	1,794,831	81,840	115,952
	2,173,335	1,942,934	170,145	172,236

Movements on the provision for impairment of loans and leases, premium and trade receivables are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	1,002,470	715,579	100,448	97,981
Provision for receivables impairment	233,352	503,176	13,710	24,033
Receivables written off during the year as uncollectible	(115,197)	(191,095)	(28,439)	(11,575)
Unused amounts reversed	(33,648)	(25,190)	(15,047)	(9,991)
At 31 December	1,086,977	1,002,470	70,672	100,448

The creation and release of provisions for impaired receivables have been included in expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than those listed above that were individually impaired.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Loans and Leases, Premium and Trade receivables

The following table summarises the Group's and company's credit exposure for loans and leases, premium and trade receivables at their carrying amounts, as categorised by the customer sector:

	Group		Company	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Public sector	624,461	171,852	-	-
Professional and other services	4,912,337	4,568,848	-	-
Personal	10,142,129	8,732,161	120,978	163,169
Agriculture, fishing and mining	798,016	762,855	-	-
Construction and real estate	1,416,054	1,519,896	25,005	30,000
Electricity, gas and water	1,578,671	1,202,447	-	-
Distribution	3,347,061	4,084,067	2,976,332	2,778,044
Manufacturing	2,095,016	2,318,411	-	-
Transportation	3,103,536	2,403,631	-	-
Tourism and entertainment	1,938,084	1,624,079	196,306	194,408
Financial and other money services	1,448,080	2,059,656	191,389	191,349
Brokers and agents	1,691,442	1,680,620	-	-
Reinsurers and coinsurers	1,830,415	740,516	-	-
Supermarket chains	2,046,520	1,784,489	313,796	319,463
Wholesalers	1,506,222	1,196,302	372,972	314,153
Retail and direct customers	3,039,363	2,918,837	438,797	363,806
Other	695,067	511,737	108,723	155,569
	42,212,474	38,280,404	4,744,298	4,509,961
Less: Provision for credit losses	(1,086,977)	(1,002,470)	(70,672)	(100,448)
	41,125,497	37,277,934	4,673,626	4,409,513
Interest receivable	212,462	160,718	46,313	13,968
	41,337,959	37,438,652	4,719,939	4,423,481

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	Group		Company	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Loans and leases	1,585,287	1,457,568	-	-
Trade and other receivables	588,048	485,366	170,145	172,236

There are no financial assets other than those listed above that were individually impaired.

Repossessed collateral

The Group and the company obtained assets by taking possession of collateral held as security. Repossessed collateral is sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

A number of cases are in the courts awaiting judgments. The impairment provision has not been adjusted for these claims.

Debt securities

The following table summarises the Group's and company's credit exposure for debt securities at their carrying amounts, as categorised by issuer:

	Group		Company	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Government of Jamaica:				
Available-for-sale securities	12,944,286	17,883,313	2,995,852	3,531,448
Fair value through profit or loss	-	86,223	-	-
Corporate:				
Available-for-sale securities	9,472,499	6,720,538	1,954,336	1,608,075
Other government				
Available-for-sale securities	885,415	799,671	-	-
Bank of Jamaica	9,912,692	10,587,210	-	-
Other (Note 6)	2,954,634	2,845,341	1,514,573	1,562,237
	36,169,526	38,922,296	6,464,761	6,701,760

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group through the ALCOs and treasury departments, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

(v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;

(vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable (both interest and principal cash flows) of the Group's and company's financial liabilities based on contractual repayment obligations. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

			Group		
	1 to 3 Months $'000	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at 31 December 2017:					
Deposits	28,907,369	4,717,593	7,572	-	33,632,534
Securities sold under agreements to repurchase	2,767,417	-	1,123,018	-	3,890,435
Bank and other loans	6,441,014	4,559,816	5,828,619	733,385	17,562,834
Trade and other payables	17,762,670	1,603,825	-	-	19,366,495
Total financial liabilities (contractual dates)	55,878,470	10,881,234	6,959,209	733,385	74,452,298

			Group		
	1 to 3 Months $'000	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at 31 December 2016:					
Deposits	25,380,849	5,395,693	16,338	-	30,792,880
Securities sold under agreements to repurchase	9,353,969	203,488	3,032,050	-	12,589,507
Bank and other loans	3,678,663	4,701,019	5,048,588	1,071,760	14,500,030
Trade and other payables	16,843,073	718,910	-	-	17,561,983
Total financial liabilities (contractual dates)	55,256,554	11,019,110	8,096,976	1,071,760	75,444,400

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

	Company				
	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2017:					
Bank and other loans	884,789	1,942,958	1,608,014	112,170	4,547,931
Trade and other payables	2,544,670	-	-	-	2,544,670
Subsidiaries	3,403,955	-	-	-	3,403,955
Total financial liabilities (contractual dates)	6,833,414	1,942,958	1,608,014	112,170	10,496,556

	Company				
	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2016:					
Bank and other loans	1,939,198	1,465,329	1,347,775	79,304	4,831,606
Trade and other payables	2,600,965	-	-	-	2,600,965
Subsidiaries	2,784,294	-	-	-	2,784,294
Total financial liabilities (contractual dates)	7,324,457	1,465,329	1,347,775	79,304	10,216,865

The assets available to meet all of the liabilities and to cover outstanding loan commitments include: cash, Central Bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions. The Group and the company have the following undrawn committed borrowing facilities:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Floating rate –				
Expiring within one year	9,860,401	9,075,887	6,032,827	6,371,215

The facilities expiring within one year are annual facilities subject to review at various dates during the subsequent year. The other facilities have been arranged to help finance the Group's activities.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Off-statement of financial position items

The table below shows the contractual expiry periods of the Group's contingent liabilities and commitments.

	Group			
	No Later Than 1 Year $'000	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at 31 December 2017:				
Loan commitments	1,443,956	-	-	1,443,956
Guarantees, acceptances and other financial facilities	267,678	-	-	267,678
Capital commitments	2,126,181	-	-	2,126,181
Operating lease commitments	1,403,165	3,525,894	1,258,585	6,187,644
	5,240,980	3,525,894	1,258,585	10,025,459
As at 31 December 2016:				
Loan commitments	1,090,931	-	-	1,090,931
Guarantees, acceptances and other financial facilities	189,585	-	-	189,585
Capital commitments	2,352,326	-	-	2,352,326
Operating lease commitments	1,309,118	3,703,535	1,238,355	6,251,008
	4,941,960	3,703,535	1,238,355	9,883,850

(iii) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the research and treasury departments which carry out extensive research and monitor the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, UK pound and the Euro.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk

The table below summarises the Group and company exposure to foreign currency exchange rate risk at 31 December.

	Group						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2017:							
Financial Assets							
Cash and deposits	6,372,877	4,261,822	408,957	105,791	76,570	858,228	12,084,245
Investment securities and pledged assets	12,327,152	23,904,163	44,731	12,369	-	491,926	36,780,341
Trade and other receivables	4,842,197	5,061,631	1,667,149	479,965	223,030	1,515,658	13,789,630
Loans receivable	20,678,545	6,865,060	-	-	-	4,724	27,548,329
Total financial assets	44,220,771	40,092,676	2,120,837	598,125	299,600	2,870,536	90,202,545
Financial Liabilities							
Deposits	16,352,761	16,762,672	276,535	85,567	52,988	-	33,530,523
Securities sold under agreements to repurchase	1,746,757	2,045,963	-	-	-	-	3,792,720
Bank and other loans	7,303,113	8,104,344	861,183	170,957	-	76,018	16,515,615
Trade and other payables	7,142,533	7,898,384	1,887,841	582,707	186,627	1,668,403	19,366,495
Total financial liabilities	32,545,164	34,811,363	3,025,559	839,231	239,615	1,744,421	73,205,353
Net financial position	11,675,607	5,281,313	(904,722)	(241,106)	59,985	1,126,115	16,997,192

	Group						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2016:							
Financial Assets							
Cash and deposits	5,242,740	3,981,704	360,448	123,375	1,362,803	1,205,577	12,276,647
Investment securities and pledged assets	11,183,407	27,748,662	36,849	11,658	-	313,097	39,293,673
Trade and other receivables	4,225,984	4,314,861	1,718,676	453,663	173,800	623,611	11,510,595
Loans receivable	19,926,453	6,001,564	40	-	-	-	25,928,057
Total financial assets	40,578,584	42,046,791	2,116,013	588,696	1,536,603	2,142,285	89,008,972
Financial Liabilities							
Deposits	11,350,884	17,551,420	284,545	97,599	1,369,440	-	30,653,888
Securities sold under agreements to repurchase	5,223,496	7,119,936	-	-	-	-	12,343,432
Bank and other loans	7,087,161	5,345,352	559,059	213,973	-	36,492	13,242,037
Trade and other payables	8,001,988	5,468,031	2,738,693	629,981	80,892	642,398	17,561,983
Total financial liabilities	31,663,529	35,484,739	3,582,297	941,553	1,450,332	678,890	73,801,340
Net financial position	8,915,055	6,562,052	(1,466,284)	(352,857)	86,271	1,463,395	15,207,632

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk (continued)

	Company						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2017:							
Financial Assets							
Cash and deposits	1,434,333	504,851	-	-	-	5,267	1,944,451
Investment securities	2,578,496	3,935,102	-	-	-	-	6,513,598
Trade and other receivables	1,336,610	24,023	-	-	-	-	1,360,633
Subsidiaries	888,062	175,310	-	-	-	-	1,063,372
Loans receivable	1,520,015	1,839,291	-	-	-	-	3,359,306
Total financial assets	7,757,516	6,478,577	-	-	-	5,267	14,241,360
Financial Liabilities							
Bank and other loans	2,008,673	2,044,595	-	-	-	-	4,053,268
Trade and other payables	1,778,631	765,674	365	-	-	-	2,544,670
Subsidiaries	2,577,600	817,557	2,211	3,003	3,584	-	3,403,955
Total financial liabilities	6,364,904	3,627,826	2,576	3,003	3,584	-	10,001,893
Net financial position	1,392,612	2,850,751	(2,576)	(3,003)	(3,584)	5,267	4,239,467

	Company						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2016:							
Financial Assets							
Cash and deposits	1,685,459	909,804	-	-	-	5,548	2,600,811
Investment securities	2,294,564	4,467,045	-	-	-	-	6,761,609
Trade and other receivables	1,228,915	19,383	-	-	-	-	1,248,298
Subsidiaries	344,208	129,251	-	6,303	-	-	479,762
Loans receivable	1,823,080	1,352,103	-	-	-	-	3,175,183
Total financial assets	7,376,226	6,877,586	-	6,303	-	5,548	14,265,663
Financial Liabilities							
Bank and other loans	2,863,002	1,583,637	-	-	-	-	4,446,639
Trade and other payables	1,677,103	923,862	-	-	-	-	2,600,965
Subsidiaries	1,710,476	1,073,266	552	-	-	-	2,784,294
Total financial liabilities	6,250,581	3,580,765	552	-	-	-	9,831,898
Net financial position	1,125,645	3,296,821	(552)	6,303	-	5,548	4,433,765

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the changes in carrying amounts of outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 4% increase (2016: 6%) and a 2% decrease (2016: 1%) in foreign currency rates to arrive at the corresponding impact on profit. The sensitivity analysis includes cash and deposits, investment securities, receivables, loans receivable, deposits, securities sold under agreements to repurchase, bank and other loans, and payables. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be assessed on an individual basis.

	Group			
	% Change in Currency Rate 2017	Effect on Profit before Taxation 2017 $'000	% Change in Currency Rate 2016	Effect on Profit before Taxation 2016 $'000
Currency:				
USD	+4%	199,229	+6%	393,382
GBP	+4%	934	+6%	3,579
CAN	+4%	1,179	+6%	2,140
EURO	+4%	64	+6%	(1,123)
USD	-2%	(99,614)	-1%	(65,564)
GBP	-2%	(467)	-1%	(597)
CAN	-2%	(590)	-1%	(357)
EURO	-2%	(32)	-1%	187

	Company			
	% Change in Currency Rate 2017	Effect on Profit before Taxation 2017 $'000	% Change in Currency Rate 2016	Effect on Profit before Taxation 2016 $'000
Currency:				
USD	+4%	115,662	+6%	199,600
GBP	+4%	(103)	+6%	(33)
CAN	+4%	(120)	+6%	378
EURO	+4%	(140)	+6%	-
USD	-2%	(57,831)	-1%	(33,267)
GBP	-2%	51	-1%	6
CAN	-2%	60	-1%	(63)
EURO	-2%	70	-1%	-

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed rate instruments expose the Group to fair value interest risk.

The Group manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and also manages the maturities of interest bearing financial assets and liabilities. The respective boards within the Group set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the ALCOs and Investment Committees.

The following tables summarise the Group's and the company's exposure to interest rate risk. It includes the Group and company financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Group						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2017:							
Assets							
Cash and deposits	4,593,987	1,060,369	-	-	-	6,429,889	12,084,245
Investment securities and pledged assets	3,753,642	3,014,131	6,113,348	7,504,049	10,445,646	5,949,525	36,780,341
Loans receivable	230,696	2,956,959	1,992,321	8,769,984	13,468,069	130,300	27,548,329
Trade and other receivables	-	-	-	-	-	13,789,630	13,789,630
Total financial assets	8,578,325	7,031,459	8,105,669	16,274,033	23,913,715	26,299,344	90,202,545
Liabilities							
Deposits	22,215,453	6,651,516	4,656,186	7,368	-	-	33,530,523
Securities sold under agreements to repurchase	2,627,377	135,503	-	1,029,840	-	-	3,792,720
Bank loans	5,463,855	3,152,184	4,661,854	2,877,712	360,010	-	16,515,615
Trade payables	-	-	-	-	-	19,366,495	19,366,495
Total financial liabilities	30,306,685	9,939,203	9,318,040	3,914,920	360,010	19,366,495	73,205,353
Total interest repricing gap	(21,728,360)	(2,907,744)	(1,212,371)	12,359,113	23,553,705	6,932,849	16,997,192

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Group						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2016:							
Assets							
Cash and deposits	4,844,448	1,472,961	-	-	-	5,959,238	12,276,647
Investment securities and pledged assets	5,950,118	3,051,031	5,666,743	12,476,099	10,118,178	2,031,504	39,293,673
Loans receivable	354,924	4,532,882	1,064,389	8,304,625	11,508,068	163,169	25,928,057
Trade and other receivables	-	-	-	-	-	11,510,595	11,510,595
Total financial assets	11,149,490	9,056,874	6,731,132	20,780,724	21,626,246	19,664,506	89,008,972
Liabilities							
Deposits	19,507,412	5,839,221	5,291,894	15,361	-	-	30,653,888
Securities sold under agreements to repurchase	7,824,770	1,513,897	200,073	2,804,692	-	-	12,343,432
Bank loans	2,757,872	3,781,867	4,025,766	1,852,603	823,929	-	13,242,037
Trade payables	-	-	-	-	-	17,561,983	17,561,983
Total financial liabilities	30,090,054	11,134,985	9,517,733	4,672,656	823,929	17,561,983	73,801,340
Total interest repricing gap	(18,940,564)	(2,078,111)	(2,786,601)	16,108,068	20,802,317	2,102,523	15,207,632

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Company						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2017:							
Assets							
Cash and deposits	202,184	766,901	-	-	-	975,366	1,944,451
Investment securities	-	847,000	1,633,761	1,690,978	2,293,024	48,835	6,513,598
Loans receivable	-	313,372	1,659,863	582,943	-	803,128	3,359,306
Trade and other receivables	-	-	-	-	-	1,360,633	1,360,633
Subsidiaries	-	-	-	-	-	1,063,372	1,063,372
Total financial assets	202,184	1,927,273	3,293,624	2,273,921	2,293,024	4,251,334	14,241,360
Liabilities							
Bank loans	759,275	1,128,910	2,165,083	-	-	-	4,053,268
Trade payables	-	-	-	-	-	2,544,670	2,544,670
Subsidiaries	-	-	-	-	-	3,403,955	3,403,955
Total financial liabilities	759,275	1,128,910	2,165,083	-	-	5,948,625	10,001,893
Total interest repricing gap	(557,091)	798,363	1,128,541	2,273,921	2,293,024	(1,697,291)	4,239,467

	Company						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2016:							
Assets							
Cash and deposits	451,998	1,252,320	-	-	-	896,493	2,600,811
Investment securities	-	1,106,518	1,762,220	1,529,364	2,303,659	59,848	6,761,609
Loans receivable	-	281,169	1,418,694	630,000	-	845,320	3,175,183
Trade and other receivables	-	-	-	-	-	1,248,298	1,248,298
Subsidiaries	-	-	-	-	-	479,762	479,762
Total financial assets	451,998	2,640,007	3,180,914	2,159,364	2,303,659	3,529,721	14,265,663
Liabilities							
Bank loans	1,790,092	1,547,695	1,106,220	2,632	-	-	4,446,639
Trade payables	-	-	-	-	-	2,600,965	2,600,965
Subsidiaries	-	-	-	-	-	2,784,294	2,784,294
Total financial liabilities	1,790,092	1,547,695	1,106,220	2,632	-	5,385,259	9,831,898
Total interest repricing gap	(1,338,094)	1,092,312	2,074,694	2,156,732	2,303,659	(1,855,538)	4,433,765

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's income statement and equity.

The Group's interest rate risk arises from investment securities, loans receivable, customers' deposits, securities sold under repurchase agreements and borrowings. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate financial assets and floating rate liabilities. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates combined with the effect on net profit. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact, each variable has to be evaluated on an individual basis.

Group

Change in basis points: 2017 JMD / USD	Effect on Profit before Taxation 2017 $'000	Effect on Other Components of Equity 2017 $'000	Change in basis points: 2016 JMD / USD	Effect on Profit before Taxation 2016 $'000	Effect on Other Components of Equity 2016 $'000
-100 / -50	44,004	233,261	-100 / -50	49,980	300,303
+100 / +50	(44,004)	(196,323)	+100 / +100	(167,834)	(578,804)

Company

Change in basis points: 2017 JMD / USD	Effect on Profit before Taxation 2017 $'000	Effect on Other Components of Equity 2017 $'000	Change in basis points: 2016 JMD / USD	Effect on Profit before Taxation 2016 $'000	Effect on Other Components of Equity 2016 $'000
-100 / -50	3,929	53,842	-100 / -50	(7,190)	62,678
+100 / +50	(3,929)	(51,943)	+100 / +100	7,190	(108,736)

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity price risk because of equity investments held and classified on the statement of financial position as either available for sale or at fair value through profit or loss. The Group manages its price risk by trading these instruments when appropriate to reduce the impact of any adverse price fluctuations.

The impact of a 15% (2016: 10%) change in the quoted prices for these equities would be an increase or decrease in the carrying value of $3,802,000 (2016: $1,230,000) in income and $86,954,000 (2016: $35,329,000) in other comprehensive income.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(d) Capital management

Insurance subsidiaries

The insurance subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) To comply with the capital requirements set by the regulators of the insurance markets within which the companies operate;

(ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of business.

Capital adequacy is managed and monitored at the insurance subsidiaries' level by management, the Audit Committee and the Board of Directors. In addition, the companies seek to maintain internal capital adequacy at levels higher than the minimum level of regulatory capital required.

The primary measure used to assess capital adequacy for the Jamaican based general insurance subsidiary is the Minimum Capital Test (MCT). This information is required to be filed with the Financial Services Commission (FSC) on an annual basis. The minimum standard recommended by the regulators for companies is a MCT of 250% (2016: 250%).

The banking and investment subsidiaries

The banking and investment subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) To comply with the capital requirements set by the regulators of the banking and investment markets where the entities within the Group operate;

(ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of business.

Capital adequacy and the use of regulatory capital are monitored monthly by management and the required information is filed monthly with the Bank of Jamaica (BOJ) and the FSC.

The BOJ requires the banking entity to:

(i) Hold the minimum level of regulatory capital as a percentage of total assets of 8%; and
(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The FSC requires the investment services entity to:

(i) Hold the minimum level of regulatory capital as a percentage of total assets of 6%; and
(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The regulatory capital as managed by the subsidiaries' ALCOs is divided into two tiers:

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and negative fair value reserves are deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group complied with the regulatory capital requirements to which it is subjected.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(d) Capital management (continued)

Companies not requiring external regulatory capital requirements

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on equity, which the Group defines as net profit attributable to owners of the company divided by total owners' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to equity owners.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as debt divided by owners' equity. Debt is calculated as total borrowings as shown in the consolidated statement of financial position. Owners' equity is calculated as capital and reserves attributable to the company's owners as shown in the consolidated statement of financial position.

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2017 and 2016 were as follows:

	Group	
	2017	**2016**
	$'000	**$'000**
Total borrowings (Note 15)	16,515,615	13,242,037
Owners' equity	45,222,812	42,063,925
Gearing ratio	36.5%	31.5%

There were no changes to the Group's approach to capital management during the year.

The parent company complied with all externally imposed capital requirements to which it is subjected.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (g). The assessment of goodwill impairment involves the determination of the value in use. Determination of value in use involves the estimation of future cash flows from the business taking into consideration the growth rates, inflation rates and the discount rates. Any changes in these variables would impact the value in use calculations. A 1% increase in the discount rate would result in a reduction in the value in use by $2,858,582,000, which would not result in an impairment of goodwill.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Group has recognised deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

(iii) Pension plan assets and post-employment obligations

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The appropriate discount rate is determined at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-employment benefit obligations. In determining the appropriate discount rate, the interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid are considered, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Other key assumptions for the pension and post-employment benefits cost and credits are based in part on current market conditions.

(iv) Liabilities arising from claims made under insurance contracts

The determination of the liabilities under insurance contracts represents the liability for future claims payable by the insurance subsidiaries based on contracts for the insurance business in force at the statement of financial position date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amount of future premiums that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the insurance subsidiaries' experience.

Claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the insurance subsidiaries' estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the insurance subsidiaries to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (continued)

(v) Investment properties

Investment properties are carried in the statement of financial position at market value. The Group uses independent qualified property appraisers to value its investment properties annually, generally using the income approach. This approach takes into consideration various assumptions and factors including; the level of current and future occupancy, the rate of annual rent increases, the rate of inflation of direct expenses, the appropriate discount rate, and the current condition of the properties together with an estimate of future maintenance and capital expenditures. Reference is also made to recent comparable sales. A change in any of these assumptions and factors could have a significant impact on the valuation of investment properties.

(vi) Land and buildings

Freehold land and buildings are carried in the statement of financial position at fair value, with changes in fair value being recognised in 'capital and fair value reserve' through other comprehensive income. The Group uses independent qualified property appraisers to value its land and buildings bi-annually. Those fair values were derived using:

- The sales comparison approach, which references market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The most significant input into this valuation approach is price per square foot. Significant increases (decreases) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value.

- The cost approach using observable inputs. The external valuers have determined these inputs based on the size, age and condition of the land and buildings and the state of the economy.

(vii) Fair value of financial instruments

In the absence of quoted market prices, the fair values of a significant portion of the Group's financial instruments were determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arm's length transaction.

(viii) Impairment losses on loans

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in arriving at net profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ix) Business combinations

Business combinations are accounted for using the acquisition method. The Group determines the identifiable assets and liabilities using the Purchase Price Allocation method. Under this method, the Group makes estimates about future cash flows which are derived based on factors such as revenue growth, future margins, attrition rates, and discount rates in determining the fair values of the identifiable intangible assets.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

5. Cash and Deposits

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and in hand	9,761,362	9,665,440	1,177,550	1,348,491
Deposits	2,322,883	2,611,207	766,901	1,252,320
	12,084,245	12,276,647	1,944,451	2,600,811

Included in deposits is interest receivable of $7,124,000 (2016: $7,959,000) and $4,027,000 (2016: $6,150,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 3.71% (2016: 3.17%) and 4.17% (2016: 3.69%) for the Group and company, respectively, and these deposits have an average maturity of under 3 months.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and in hand	9,761,362	9,665,440	1,177,550	1,348,491
Deposits	2,322,883	2,611,207	766,901	1,252,320
	12,084,245	12,276,647	1,944,451	2,600,811
Bank overdrafts (Note 15)	(2,681,950)	(1,965,846)	(30,825)	(1,054,809)
	9,402,295	10,310,801	1,913,626	1,546,002

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

6. Investment Securities and Pledged Assets

(a) Investment securities

	Group		Company	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Available-for-sale:				
Quoted equities	579,692	353,294	48,502	59,514
Bank of Jamaica	9,912,692	10,587,210	-	-
Government of Jamaica securities	12,944,286	17,883,313	2,995,852	3,531,448
Foreign government securities	885,415	799,671	-	-
Corporate bonds	9,472,499	6,720,538	1,954,336	1,608,075
Other debt securities	2,954,634	2,845,341	1,514,573	1,562,237
Other	5,779	5,779	335	335
	36,754,997	39,195,146	6,513,598	6,761,609
Financial assets at fair value through profit or loss:				
Derivative financial instruments (Note 37)	-	86,223	-	-
Quoted equities	25,344	12,304	-	-
	25,344	98,527	-	-
Total	36,780,341	39,293,673	6,513,598	6,761,609
Less: Pledged assets (Note 6b)	(4,927,305)	(15,419,427)	-	-
Investment securities in the statement of financial position	31,853,036	23,874,246	6,513,598	6,761,609

Included in investment securities is interest receivable of $471,149,000 (2016: $502,858,000) and $92,605,000 (2016: $95,233,000) for the Group and the company respectively.

Included in Government of Jamaica securities are instruments which mature between 3 months and 12 months or which the Group intends to realise within 12 months and have an effective interest rate of 5.10% (2016: 5.06%) and 3.03% (2016: 2.75%) for the Group and the company respectively.

Included in Bank of Jamaica securities is $5,338,710,000 (2016: $4,131,173,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2016: 12%) for Jamaican dollar cash reserves and 15% (2016: 12%) for United States dollar cash reserves of the banking subsidiary's prescribed liabilities. It is not available for investment, lending or other use by the Group or the banking subsidiary.

Included in investment securities for the Group is $10,570,440,000 (2016: $11,669,552,000) and company $1,564,603,000 (2016: $1,653,278,000) which matures within the next 12 months.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

6. Investment Securities and Pledged Assets (Continued)

(b) Pledged assets

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and the Bank of Jamaica.

	Group			
	Asset		Related Liability	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Total in the statement of financial position (Note 6a)	4,927,305	15,419,427	4,772,630	14,766,833

There were no pledged assets in relation to the company.

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

	Group	
	2017 $'000	2016 $'000
Pledged assets with right to sell or repledge	4,927,305	15,419,427

(c) Available-for-sale securities

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At 1 January	39,196,927	32,862,241	6,761,609	6,317,231
Exchange differences	(687,070)	1,802,804	(135,768)	267,141
Additions	8,068,721	6,462,944	1,138,110	316,802
Disposals	(10,145,254)	(2,401,725)	(1,306,725)	(233,155)
Net transfer to equity	321,673	468,882	56,372	93,590
At 31 December	36,754,997	39,195,146	6,513,598	6,761,609
Less non-current portion	(26,184,557)	(27,525,594)	(4,948,995)	(5,108,331)
Current portion	10,570,440	11,669,552	1,564,603	1,653,278

The Group recognised net gains of $195,725,000 (2016: $65,396,000) and the company recognised net losses of $Nil (2016: $11,435,000) in the income statement, being reclassified from other comprehensive income on sale.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

7. Receivables

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables, less provision for impairment	9,307,666	8,749,890	1,334,718	1,176,549
Insurance receivables, less provision for impairment	2,985,224	1,810,590	-	-
Reinsurers' portion of unearned premiums	1,153,637	1,221,096	-	-
Deferred policy acquisition costs	238,750	222,430	-	-
Receivable from associates (Note 34e)	14,122	33,678	3,168	29,228
Prepayments	666,550	734,116	73,812	103,810
Other receivables	1,482,618	916,437	22,747	42,521
	15,848,567	13,688,237	1,434,445	1,352,108

The fair values of trade and other receivables approximate carrying values. All receivable balances are due within the next 12 months.

8. Inventories

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Raw materials and spares	661,089	644,427	-	-
Finished goods	2,198,264	2,357,647	-	-
Merchandise	6,907,589	6,286,664	1,951,038	1,885,505
Goods in transit	1,486,198	2,172,545	570,096	804,138
	11,253,140	11,461,283	2,521,134	2,689,643

The inventory write-down recognised as an expense amounted to $319,178,000 (2016: $264,110,000) and $144,799,000 (2016: $119,122,000) for the Group and the company respectively.

9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Finance leases, less deferred profit	301,425	418,938	-	-
Loans and receivables:				
Loans to subsidiaries (Note 34e)	-	-	3,238,328	3,012,013
Loans to others	27,246,904	25,509,119	120,978	163,170
	27,548,329	25,928,057	3,359,306	3,175,183

Loans receivable are due within 10 years from the statement of financial position date.

Included in loans receivable is interest receivable of $212,462,000 (2016: $160,718,000) and $46,313,000 (2016: $13,968,000) for the Group and company, respectively.

Included in loans receivable is $5,517,889,000 (2016: $6,606,753,000) and $908,872,000 (2016: $895,054,000) which matures in the next 12 months for the Group and the company respectively.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

9. Loans Receivable (Continued)

(b) Finance lease receivables:

	Group	
	2017	**2016**
	$'000	**$'000**
Gross receivables from finance leases:		
Not later than 1 year	195,317	212,485
Later than 1 year and not later than 5 years	153,513	291,298
	348,830	503,783
Unearned future finance income on finance leases	(47,405)	(84,845)
Net investment in finance leases	301,425	418,938
The net investment in finance leases is analysed as follows:		
Not later than 1 year	165,445	166,141
Later than 1 year and not later than 5 years	135,980	252,797
Total	301,425	418,938

10. Investments in Associates

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of year	1,743,984	1,492,080	49,698	49,698
Amounts recognised in the income statement	484,972	441,151	-	-
Amounts recognised in other comprehensive income	(19,467)	104,649	-	-
Dividends paid	(338,482)	(293,896)	-	-
Disposal	(72,787)	-	-	-
Amounts recognised in the statement of financial position	1,798,220	1,743,984	49,698	49,698

	Group	
	2017	**2016**
	$'000	**$'000**
Dairy Industries (Jamaica) Limited	933,140	859,721
CSGK Finance Holdings Limited	854,947	801,186
Immaterial associated companies	10,133	83,077
Amounts recognised in the statement of financial position	1,798,220	1,743,984

On 8 May 2017, the Group disposed of its 30.0% interest in Trident Insurance Company Limited, a general insurance underwriter, operating in Barbados. The net proceeds amounted to $55,506,000 and the Group recorded a gain of $6,540,000 on the sale.

.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

10. Investments in Associates (Continued)

Dairy Industries (Jamaica) Limited (DIJL) and CSGK Finance Holdings Limited (CSGK), in the opinion of the directors, are material to the Group.

DIJL has share capital consisting solely of ordinary shares, which are partially owned by the Group and held directly by the parent company. The Group owns 50% of the share capital in DIJL. DIJL is one of the main manufacturers of dairy products such as cheese and yogurt, within Jamaica; and sells its products mainly through distributors including to companies within the Group.

CSGK has share capital consisting solely of ordinary shares, which are held indirectly by the parent company through a banking and investment subsidiary. The Group owns 40% of the share capital in CSGK. CSGK is a finance company whose principal activities, through its wholly owned subsidiary Signia Financial Group Inc., are the provision of term finance, motor vehicle leasing, acceptance of deposits, foreign exchange dealing and stock broking.

DIJL and CSGK are private companies and there is no quoted market price available for the shares.

There are no contingent liabilities relating to the Group's interest in DIJL, CSGK and the Group's other associated companies.

The summarised information for DIJL and CSGK that was accounted for using the equity method for the years ended 31 December 2017 and 31 December 2016 is as follows:

Summarised statement of financial position

	Dairy Industries (Jamaica) Limited		CSGK Finance Holdings Limited	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current				
Cash and cash equivalents	133,791	193,526	1,580,012	1,625,470
Other current assets (excluding cash)	1,662,842	1,911,272	156,403	257,027
Total current net assets	1,796,633	2,104,798	1,736,415	1,882,497
Financial liabilities (excluding trade payables)	-	250,000	11,643,691	11,923,449
Other current liabilities (including trade payables)	462,543	665,329	377,617	364,643
Total current liabilities	462,543	915,329	12,021,308	12,288,092
Non-current				
Assets	816,403	797,833	12,422,261	12,408,559
Non-financial liabilities	284,213	267,861	-	-
Total non-current liabilities	284,213	267,861	-	-
Net assets	1,866,280	1,719,441	2,137,368	2,002,964

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

10. Investments in Associates (Continued)

Summarised income statement

	Dairy Industries (Jamaica) Limited		CSGK Finance Holdings Limited	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Revenue	3,750,013	3,597,260	1,289,117	1,241,476
Depreciation	(48,401)	(42,043)	(13,537)	(12,077)
Interest income - non-financial services	24,945	9,288	-	-
Interest expense - non-financial services	(8,336)	(13,147)	-	-
Profit before income tax	957,324	961,439	390,726	289,119
Taxation expense	(217,356)	(240,361)	(101,925)	(80,438)
Profit after tax	739,968	721,078	288,801	208,681
Other comprehensive income	6,871	48,652	(58,195)	120,467
Total comprehensive income	746,839	769,730	230,606	329,148
Dividends received by the Group from associates	300,000	255,000	38,482	38,897

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates

	Dairy Industries (Jamaica) Limited		CSGK Finance Holdings Limited	
	2017	2016	2017	2016
Summarised financial information	$'000	$'000	$'000	$'000
Opening net assets at 1 January	1,719,441	1,459,711	2,002,964	1,771,054
Profit for the period	739,967	721,078	288,801	208,681
Other comprehensive income	6,871	48,652	(58,195)	120,467
Dividends paid	(600,000)	(510,000)	(96,203)	(97,238)
Closing net assets	1,866,279	1,719,441	2,137,367	2,002,964
Interest in associates (%)	50	50	40	40
Interest in associates (J$)	933,140	859,721	854,947	801,186
Carrying value	933,140	859,721	854,947	801,186

The amounts recognised in total comprehensive income in respect of immaterial associates are as follows:

	Group	
	2017	2016
	$'000	$'000
Loss	(532)	(2,860)
Other comprehensive income	375	32,136
Total comprehensive income	(157)	29,276

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

11. Intangible Assets

	Brands, Customer and Supplier Relationships $'000	Goodwill $'000	Computer Software $'000	Policy Contracts $'000	Total $'000
			Group		
Cost					
At 1 January 2016	2,719,265	1,711,343	2,552,962	589,088	7,572,658
Additions	-	-	390,751	-	390,751
Retirement of asset	-	-	(663)	-	(663)
Exchange differences	53,999	6,156	6,595	-	66,750
At 31 December 2016	2,773,264	1,717,499	2,949,645	589,088	8,029,496
Additions	-	-	334,599	-	334,599
Acquisition through business combination (Note 39)	637,000	-	-	-	637,000
Retirement of asset	-	-	(7,358)	-	(7,358)
Exchange differences	(26,691)	(2,525)	(3,503)	-	(32,719)
At 31 December 2017	3,383,573	1,714,974	3,273,383	589,088	8,961,018
Accumulated Amortisation					
At 1 January 2016	1,003,335	308,490	1,691,465	392,724	3,396,014
Amortisation charge for the year	186,176	-	352,767	39,273	578,216
Retirement of asset	-	-	(663)	-	(663)
Exchange differences	28,352	-	3,305	-	31,657
At 31 December 2016	1,217,863	308,490	2,046,874	431,997	4,005,224
Amortisation charge for the year	179,556	-	367,542	39,272	586,370
Retirement of asset	-	-	(7,358)	-	(7,358)
Exchange differences	(18,536)	(1)	(2,808)	-	(21,345)
At 31 December 2017	1,378,883	308,489	2,404,250	471,269	4,562,891
Net Book Amount					
31 December 2017	2,004,690	1,406,485	869,133	117,819	4,398,127
31 December 2016	1,555,401	1,409,009	902,771	157,091	4,024,272

Impairment tests for goodwill

The Group determines whether goodwill is impaired at least on an annual basis or when events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the cash generating unit (CGU) to which the goodwill is allocated. The recoverable amount is usually determined by reference to the value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those future cash flows.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

11. Intangible Assets (Continued)

The allocation of goodwill to the Group's cash generating units (CGUs) identified according to segment is as follows:

	2017 $'000	2016 $'000
Food Trading		
- Jamaica operations	16,854	16,854
- United Kingdom operations	460,089	435,271
- United States operations	929,542	956,884
	1,406,485	1,409,009

For the year ended 31 December 2017, management tested the goodwill allocated to all the CGUs for impairment.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates.

Key assumptions used for value in use calculations:

	Revenue Growth Rate	EBITDA to Revenue	Capital Expenditure to Revenue	Discount Rate
Food Trading				
- Jamaica operations	9.63%	4.65%	0.22%	13.86%
- United Kingdom operations	9.47%	5.43%	0.69%	11.10%
- United States operations	9.54%	3.82%	0.68%	8.00%

	Computer Software $'000
	Company
Cost	
At 1 January 2016	814,875
Additions	65,343
At 31 December 2016	880,218
Additions	155,400
Retirement of asset	(153)
At 31 December 2017	1,035,465
Accumulated Amortisation	
At 1 January 2016	691,344
Amortisation charge for the year	58,860
At 31 December 2016	750,204
Amortisation charge for the year	63,389
Retirement of asset	(153)
At 31 December 2017	813,440
Net Book Amount	
31 December 2017	222,025
31 December 2016	130,014

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

12. Fixed Assets

	Freehold Land and Buildings $'000	Leasehold Buildings and Improvements $'000	Plant, Equipment, Fixtures & Vehicles $'000	Capital Work in Progress $'000	Total $'000
			Group		
Cost					
At 1 January 2016	5,385,713	1,364,759	6,610,391	576,978	13,937,841
Additions	32,221	187,880	811,197	896,927	1,928,225
Revaluation adjustment	342,476	-	-	-	342,476
Transfers	23,859	199,913	568,279	(792,051)	-
Disposals	-	(61,479)	(290,714)	-	(352,193)
Exchange differences	60,480	(24,313)	(60,744)	1,578	(22,999)
At 31 December 2016	5,844,749	1,666,760	7,638,409	683,432	15,833,350
Additions	20,562	403,946	693,013	1,554,457	2,671,978
Revaluation adjustment	2,500	-	-	-	2,500
Transfers	10,872	121,178	415,805	(547,855)	-
Disposals	-	(16,632)	(336,139)	(16,540)	(369,311)
Exchange differences	(28,087)	8,810	24,835	(389)	5,169
At 31 December 2017	5,850,596	2,184,062	8,435,923	1,673,105	18,143,686
Accumulated Amortisation					
At 1 January 2016	114,780	811,909	4,466,759	-	5,393,448
Charge for the year	102,187	138,188	648,198	-	888,573
Revaluation adjustment	(218,703)	-	-	-	(218,703)
On disposals	(53)	(36,454)	(254,129)	-	(290,636)
Exchange differences	1,789	(15,354)	(37,438)	-	(51,003)
At 31 December 2016	-	898,289	4,823,390	-	5,721,679
Charge for the year	109,558	172,040	702,568	-	984,166
On disposals	-	(7,567)	(288,026)	-	(295,593)
Exchange differences	(296)	4,519	13,550	-	17,773
At 31 December 2017	109,262	1,067,281	5,251,482	-	6,428,025
Net Book Amount					
31 December 2017	5,741,334	1,116,781	3,184,441	1,673,105	11,715,661
31 December 2016	5,844,749	768,471	2,815,019	683,432	10,111,671

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

12. Fixed Assets (Continued)

	Freehold Land and Buildings $'000	Leasehold Buildings and Improvements $'000	Plant, Equipment, Fixtures & Vehicles $'000	Capital Work in Progress $'000	Total $'000
			Company		
Cost					
At 1 January 2016	67,000	101,293	849,442	7,920	1,025,655
Additions	-	4,763	102,266	2,207	109,236
Revaluation adjustment	7,000	-	-	-	7,000
Transfers	-	-	9,917	(9,917)	-
Disposals	-	-	(9,019)	-	(9,019)
At 31 December 2016	74,000	106,056	952,606	210	1,132,872
Additions	14	8,487	81,143	1,164	90,808
Disposals	-	(10,234)	(151,619)	(210)	(162,063)
At 31 December 2017	74,014	104,309	882,130	1,164	1,061,617
Accumulated Amortisation					
At 1 January 2016	1,305	74,730	701,883	-	777,918
Charge for the year	1,305	4,151	60,805	-	66,261
Revaluation adjustment	(2,610)	-	-	-	(2,610)
On disposals	-	-	(7,981)	-	(7,981)
At 31 December 2016	-	78,881	754,707	-	833,588
Charge for the year	1,438	4,467	65,408	-	71,313
On disposals	-	(1,279)	(141,364)	-	(142,643)
At 31 December 2017	1,438	82,069	678,751	-	762,258
Net Book Amount					
31 December 2017	72,576	22,240	203,379	1,164	299,359
31 December 2016	74,000	27,175	197,899	210	299,284

(a) The tables above include carrying values of $91,534,000 (2016: $81,862,000) and $384,000 (2016: $1,377,000) for the Group and the company, respectively, representing assets being acquired under finance leases. All amounts related to finance leases are shown in the 'Plant, Equipment, Fixtures & Vehicles' category of fixed assets.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

12. Fixed Assets (Continued)

(b) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cost	4,320,417	4,288,983	41,137	41,123
Accumulated depreciation	565,625	494,506	11,916	10,888
Net Book Amount	3,754,792	3,794,477	29,221	30,235

(c) The Group's land and buildings were revalued during 2016 by independent valuers. The valuations were done on the basis of open market value, with the exception of the Distribution Centre, for which recent market transactions are not available due to the specialised nature of the assets. The revaluation surpluses, net of applicable deferred income taxes, were credited to the capital and fair value reserves in equity (Note 18).

(d) Borrowing costs of $7,819,000 (2016: $Nil) arising on financing specifically entered into for the construction of a new corporate head office were capitalised during the year and are included in 'additions' in capital work in progress.

A capitalisation rate of 7.0% (2016: Nil) was used, representing the borrowing cost of the loan used to finance the project.

13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using principal tax rates of 25% for unregulated companies and 33 ⅓% for regulated companies.

The movement on the deferred income tax account is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of year	(596,649)	(87,670)	(981,093)	(880,836)
Income statement credit/(charge) (Note 27)	126,071	(1,545)	167,735	162,927
Tax charge relating to components of other comprehensive income (Note 27)	(63,798)	(514,295)	(69,640)	(263,184)
Exchange differences	1,559	6,861	-	-
At end of year	(532,817)	(596,649)	(882,998)	(981,093)

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

13. Deferred Income Taxes (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Subject to agreement with the taxation administration in the relevant jurisdictions, the Group has recognised tax losses of $1,871,768,000 (2016: $1,929,322,000) and recognised tax credits of $224,740,000 (2016: $148,175,000) to carry forward indefinitely against future taxable income. The Group also has unrecognised tax losses of $683,830,000 (2016: $1,048,252,000) in respect of some subsidiaries.

Deferred income tax liabilities of $183,754,000 (2016: $196,096,000) have not been established for the withholding taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are permanently reinvested; such unremitted earnings totalled $735,017,000 (2016: $784,384,000).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

	Group					
Deferred tax liabilities	**Fixed Assets $'000**	**Fair Value Gains $'000**	**Unrealised Foreign Exchange Gains $'000**	**Pension Plan Assets $'000**	**Other $'000**	**Total $'000**
At 1 January 2016	302,573	237,085	23,752	1,341,146	398,422	2,302,978
(Credited)/charged to the income statement	(6,209)	4,375	(9,297)	(72,607)	192,451	108,713
Charged to other comprehensive income	130,147	84,660	-	266,982	-	481,789
Exchange differences	-	-	-	-	1,274	1,274
At 31 December 2016	426,511	326,120	14,455	1,535,521	592,147	2,894,754
Charged/(credited) to the income statement	5,299	9,593	-	(43,255)	16,325	(12,038)
(Credited)/charged to other comprehensive income	(20,527)	71,244	-	84,945	-	135,662
Exchange differences	(377)	-	-	-	(2,168)	(2,545)
At 31 December 2017	410,906	406,957	14,455	1,577,211	606,304	3,015,833

Deferred tax assets	**Fixed Assets $'000**	**Fair Value Losses $'000**	**Unutilised Tax Losses and Credits $'000**	**Employee Benefit Obligations $'000**	**Other $'000**	**Total $'000**
At 1 January 2016	132,464	75,247	927,940	1,047,944	31,713	2,215,308
Credited/(charged) to the income statement	57,438	-	(186,151)	108,186	127,695	107,168
(Charged)/credited to other comprehensive income	-	(75,247)	-	42,741	-	(32,506)
Exchange differences	(4,671)	-	13,686	-	(880)	8,135
At 31 December 2016	185,231	-	755,475	1,198,871	158,528	2,298,105
Credited/(charged) to the income statement	41,002	-	1,013	129,254	(57,236)	114,033
Credited to other comprehensive income	-	-	-	71,864	-	71,864
Exchange differences	1,401	-	(2,131)	-	(256)	(986)
At 31 December 2017	227,634	-	754,357	1,399,989	101,036	2,483,016

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

13. Deferred Income Taxes (Continued)

Company

Deferred tax liabilities	Fixed Assets $'000	Fair Value Gains $'000	Unrealised Foreign Exchange Gains $'000	Pension Plan Assets $'000	Other $'000	Total $'000
At 1 January 2016	8,227	38,211	3,865	1,341,146	9,425	1,400,874
Credited to the income statement	(1,985)	-	(3,865)	(72,607)	(959)	(79,416)
Charged to other comprehensive income	2,076	23,398	-	266,982	-	292,456
At 31 December 2016	8,318	61,609	-	1,535,521	8,466	1,613,914
Charged/(credited) to the income statement	10,286	-	-	(43,255)	11,750	(21,219)
Charged to other comprehensive income	-	14,093	-	84,944	-	99,037
At 31 December 2017	18,604	75,702	-	1,577,210	20,216	1,691,732

Deferred tax assets	Fixed Assets $'000	Unutilised Tax Losses and Credits $'000	Employee Benefit Obligations $'000	Other $'000	Total $'000
At 1 January 2016	23,419	10,932	471,416	14,271	520,038
Credited to the income statement	11,509	24,506	40,131	7,365	83,511
Credited to other comprehensive income	-	-	29,272	-	29,272
At 31 December 2016	34,928	35,438	540,819	21,636	632,821
Credited/(charged) to the income statement	22,676	86,129	40,645	(2,934)	146,516
Credited to other comprehensive income	-	-	29,397	-	29,397
At 31 December 2017	57,604	121,567	610,861	18,702	808,734

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

13. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax assets	836,477	801,008	-	-
Deferred tax liabilities	(1,369,294)	(1,397,657)	(882,998)	(981,093)
	(532,817)	(596,649)	(882,998)	(981,093)

The gross amounts shown in the above tables include the following:

Deferred tax assets:				
Deferred tax assets to be recovered after more than 12 months	2,381,980	2,139,577	790,032	611,185
Deferred tax assets to be recovered within 12 months	101,036	158,528	18,702	21,636
	2,483,016	2,298,105	808,734	632,821
Deferred tax liabilities:				
Deferred tax liabilities to be settled after more than 12 months	(1,988,117)	(1,962,032)	(1,595,814)	(1,543,839)
Deferred tax liabilities to be settled within 12 months	(1,027,716)	(932,722)	(95,918)	(70,075)
	(3,015,833)	(2,894,754)	(1,691,732)	(1,613,914)
Deferred tax liabilities net	(532,817)	(596,649)	(882,998)	(981,093)

14. Pensions and Other Post-Employment Obligations

The Group has both defined contribution pension schemes and a defined benefit pension scheme.

Defined contribution schemes
The defined contribution pension scheme is open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The Group also has other defined contribution schemes open to employees of its foreign subsidiaries which are operated in those countries. The Group's and company's contributions for the year were $293,859,000 (2016: $248,811,000) and $60,073,000 (2016: $47,683,000) respectively.

Defined benefit scheme
The Group's defined benefit pension scheme, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.02%, as recommended by independent actuaries. The last valuation was carried out at 31 December 2013. Pension at normal retirement age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by Proven Fund Managers Limited.

In the event of a plan surplus the Group is able to take a contribution holiday, while a funding deficiency will require the Group to make additional contributions to adequately fund the plan.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pension and Other Post-Employment Obligations (Continued)

Pension benefits
The amounts recognised in the statement of financial position are determined as follows:

	Group and Company	
	2017	**2016**
	$'000	**$'000**
Present value of funded obligations	25,908,981	22,330,364
Fair value of plan assets	(32,217,824)	(28,472,442)
Asset in the statement of financial position	(6,308,843)	(6,142,078)

The movement in the defined benefit obligation over the year is as follows:

	Group and Company	
	2017	**2016**
	$'000	**$'000**
Beginning of year	22,330,364	19,868,745
Current service cost	696,188	668,160
Interest cost	2,005,634	1,663,989
	2,701,822	2,332,149
Remeasurements -		
Loss from change in financial assumptions	1,255,690	756,423
Experience losses/(gains)	100,728	(209,576)
	1,356,418	546,847
Members' contributions	230,209	230,487
Benefits paid	(709,832)	(647,864)
End of year	25,908,981	22,330,364

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Pension benefits (continued)
The movement in the fair value of plan assets for the year is as follows:

	Group and Company	
	2017	**2016**
	$'000	**$'000**
Beginning of year	28,472,442	25,233,328
Interest income on plan assets	2,557,525	2,116,694
Return on plan assets, excluding amounts included in interest income	1,696,197	1,614,772
Members' contributions	230,209	230,487
Employers' contributions	986	740
Benefits paid	(709,832)	(647,864)
Administration costs	(29,703)	(75,715)
End of year	32,217,824	28,472,442

The amounts recognised in the income statement are as follows:

	Group and Company	
	2017	**2016**
	$'000	**$'000**
Current service cost	696,188	668,160
Interest income (net)	(551,891)	(452,705)
Administration costs	29,703	75,715
Total, included in staff costs (Note 26)	174,000	291,170

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately $14,815,707,000 (2016: $12,421,257,000) relating to active employees, $3,018,986,000 (2016: $2,387,981,000) relating to deferred members and $8,074,288,000 (2016: $7,521,126,000) relating to members in retirement.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Pension benefits (continued)

The plan assets are comprised of:

	Group and Company			
	2017		**2016**	
	$'000	**%**	**$'000**	**%**
Equity	12,203,592	38%	9,497,567	34%
Debt	4,575,658	14%	4,328,400	15%
Real estate	2,821,614	9%	2,492,811	9%
Government securities	10,691,437	33%	10,385,674	36%
Other	1,925,523	6%	1,767,990	6%
	32,217,824	100%	28,472,442	100%

The pension plan assets include the company's ordinary stock units with a fair value of $1,954,116,000 (2016: $1,809,915,000) and buildings occupied by Group companies with fair values of $1,168,278,000 (2016: $1,047,558,000).

The benefit that the company derives from the surplus of the pension plan is limited to the extent of the reduction in future contributions that it will make to the pension scheme.

Expected contributions by the Group to the post-employment scheme for the year ending 31 December 2018 are $569,000. The actual return on plan assets was $4,253,720,000 (2016: $3,731,466,000).

The principal actuarial assumptions used were as follows:

	2017	**2016**
Discount rate	8.0%	9.0%
Long term inflation rate	5.0%	6.0%
Future salary increases	6.0%	6.0%
Future pension increases	5.0%	6.0%

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 60 on the statement of financial position date is as follows:

	2017	**2016**
Male	27.31	27.24
Female	28.21	28.17

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Pension benefits (continued)

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

		Group and Company					
		Impact on post-employment obligations					
	Change in Assumption	Increase in Assumption			Decrease in Assumption		
			2017	2016		2017	2016
Discount rate	1%	Decrease by	15.3%	15.1%	Increase by	20.0%	19.7%
Future salary increases	1%	Increase by	4.9%	4.7%	Decrease by	4.3%	4.2%
Expected pension increase	1%	Increase by	13.5%	13.5%	Decrease by	11.1%	11.1%

	Group and Company					
	Impact on post-employment obligations					
	Increase in Assumption by One Year			Decrease in Assumption by One Year		
		2017	2016		2017	2016
Life expectancy	Increase by	2.3%	2.2%	Decrease by	2.4%	2.4%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Other post-employment obligations

The Group operates a number of post-employment benefit schemes, principally in Jamaica. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in health costs of 6.5% per year (2016: 7.5% per year).

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations (continued)

The amounts recognised in the statement of financial position were determined as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Present value of unfunded obligations	5,129,990	4,406,015	2,443,443	2,163,271

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Beginning of year	4,406,015	3,848,433	2,163,271	1,885,663
Current service cost	237,731	202,480	80,940	67,296
Interest cost	388,653	320,424	189,206	156,316
Past service cost - vested benefits	(5,160)	41,311	1,806	44,746
	621,224	564,215	271,952	268,358
Remeasurements -				
Loss from change in demographic assumptions	126,759	111,562	62,434	52,553
Loss from change in financial assumptions	197,855	178,316	93,623	64,564
Experience gains	(56,852)	(110,655)	(38,464)	(33)
	267,762	179,223	117,593	117,084
Benefits paid	(165,011)	(185,856)	(109,373)	(107,834)
End of year	5,129,990	4,406,015	2,443,443	2,163,271

The amounts recognised in the income statement were as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current service cost	237,731	202,480	80,940	67,296
Interest cost	388,653	320,424	189,206	156,316
Past service cost	(5,160)	41,311	1,806	44,746
Total included in staff costs (Note 26)	621,224	564,215	271,952	268,358

The total charge was included in administration expenses.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations (continued)

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Gratuity Plan	773,590	648,103	405,006	345,460
Group Life Plan	890,425	687,066	415,250	329,009
Insured Group Health	1,530,524	1,333,251	567,775	517,431
Self Insured Health Plan	1,400,143	1,203,801	641,010	551,646
Supplementary Pension Plan	535,308	533,794	414,402	419,725
Liability in the statement of financial position	5,129,990	4,406,015	2,443,443	2,163,271

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	Group						
	Impact on post-employment obligations						
	Change in Assumption	Increase in Assumption			Decrease in Assumption		
			2017	2016		2017	2016
Discount rate	1%	Decrease by	15.1%	15.0%	Increase by	19.4%	19.3%
Medical inflation rate	1%	Increase by	19.5%	19.4%	Decrease by	15.4%	15.3%

	Company						
	Impact on post-employment obligations						
	Change in Assumption	Increase in Assumption			Decrease in Assumption		
			2017	2016		2017	2016
Discount rate	1%	Decrease by	13.7%	13.5%	Increase by	17.4%	17.1%
Medical inflation rate	1%	Increase by	17.5%	17.2%	Decrease by	14.0%	13.7%

Risks associated with pension plans and post-employment plans

Through its defined benefit pension plan and other post-employment benefits, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields; if plan assets underperform this yield, this will create a deficit.

As the plan matures, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. This process includes monitoring and rebalancing the asset classes and the maturity profile of assets within these classes. The Government bonds largely represent investments in Government of Jamaica securities.

However, the Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the plan efficiently.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Pensions and Other Post-Employment Obligations (Continued)

Risks associated with pension plans and post-employment plans (continued)

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted. The majority of the plan's assets are either unaffected by (fixed interest securities) or loosely correlated with (equities) inflation, meaning that an increase in inflation has the potential to reduce the surplus or create a deficit.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework, including monitoring the overall risk management process, as well as approving policies covering specific areas, such as limits for specific asset classes, foreign exchange risk, credit risk and investment of excess liquidity. The Board is responsible for monitoring the investment portfolio and investment strategies for the plan. A large portion of assets in 2017 consists of money market instruments, bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate by the Group is 0.02% of pensionable salaries. The next triennial valuation is due to be completed for the plan's financial position as at 31 December 2019. The Group considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit. Regular contributions, which are based on service costs, will be assessed following the upcoming valuation to determine if any increase is required.

The average duration of the post-employment obligations is as follows:

Plans	Years
Gratuity Plan	9.5
Group Life Plan	16.3
Insured Group Health	21.0
Pension Plan	19.0
Self Insured Health Plan	14.1
Superannuation Plan	7.6

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

15. Bank and Other Loans

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Secured on assets	4,142,720	3,715,816	-	-
Unsecured	12,372,895	9,526,221	4,053,268	4,446,639
	16,515,615	13,242,037	4,053,268	4,446,639

(a) Unsecured loans of subsidiaries are supported by letters of comfort from the parent company. Interest rates on these loans range between 2.0% - 10.13% (2016: 2.25% - 12.0%).

(b) Bank and other loans comprise:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Bank overdrafts (Note 5)	2,681,950	1,965,846	30,825	1,054,809
Bank borrowings	10,841,034	8,440,040	3,244,452	2,622,262
Finance leases	86,904	78,153	2,632	7,171
Other loans	2,905,727	2,757,998	775,359	762,397
Total borrowings	16,515,615	13,242,037	4,053,268	4,446,639

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Certain bank borrowings are secured on the assets of subsidiaries that have the loans. All other borrowings are unsecured. Included in bank borrowings and other loans is interest payable of $59,983,000 (2016: $94,115,000) and $20,905,000 (2016: $27,964,000) for the Group and the company, respectively.

Included in bank borrowings and other loans is $11,189,404,000 (2016: $7,898,778,000) and $2,660,996,000 (2016: $3,284,030,000) for the Group and the company respectively, which matures in the next 12 months.

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.06% (2016: 6.10%) and are within level 2 of the fair value hierarchy.

(c) Finance lease liabilities – minimum lease payments:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Not later than 1 year	37,983	29,513	2,740	5,037
Later than 1 year and not later than 5 years	74,471	55,502	-	2,740
	112,454	85,015	2,740	7,777
Future finance charges on finance leases	(25,550)	(6,862)	(108)	(606)
Present value of finance lease liabilities	86,904	78,153	2,632	7,171

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

15. Bank and Other Loans (Continued)

(c) Finance lease liabilities – minimum lease payments (continued):

The present value of finance lease liabilities is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Not later than 1 year	31,049	27,135	2,632	4,539
Later than 1 year and not later than 5 years	55,855	51,018	-	2,632
	86,904	78,153	2,632	7,171

16. Payables

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade payables	8,108,435	8,349,067	1,000,498	1,167,893
Payable to associates (Note 34 e)	246,867	539,325	143,778	326,782
Accruals	3,230,326	3,556,639	781,689	669,846
Claims outstanding	4,155,271	2,971,434	-	-
Insurance reserves	2,844,404	2,763,198	-	-
Other payables	3,625,596	2,145,518	618,705	436,444
	22,210,899	20,325,181	2,544,670	2,600,965

All payables balances are due within the next 12 months.

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

17. Share Capital

	Group and Company			
	2017	**2016**	**2017**	**2016**
	Units ('000)	**Units ('000)**	**$'000**	**$'000**
Authorised -				
Ordinary shares	1,200,000	1,200,000		
Issued and fully paid -				
Ordinary stock units	994,887	994,887	623,546	623,546
Treasury shares	(2,233)	(2,508)	(82,595)	(89,297)
Issued and outstanding	992,654	992,379	540,951	534,249

(a) On 11 July 2016, at an extraordinary general meeting of the company, the shareholders approved the subdivision of each ordinary share into three ordinary shares with effect from 11 August 2016. To facilitate this subdivision of shares, the maximum number of shares that the company is authorised to issue was increased from 400,000,000 to 1,200,000,000.

(b) During 2016 the company issued 2,050,000 shares to its employees for cash of $37,668,000. The shares were issued under the Directors and Senior Managers Stock Option Plans. No shares were issued in 2017.

(c) During the year, the company through its employee investment trust sold 122,000 (2016: 324,000) units of its own shares at a fair value of $5,027,000 (2016: $13,418,000), purchased 736,000 (2016: 5,447,000) units at a fair value of $29,592,000 (2016: $205,952,000) and transferred 889,000 (2016: 3,532,000) units to employees at a fair value of $37,667,000 (2016: $146,669,000). The total number of treasury shares held by the company at the end of the year was 2,233,000 (2016: 2,508,000) at a cost of $82,595,000 (2016: $89,297,000).

(d) At the Annual General Meeting held on 29 May 2003, the stockholders passed a resolution for 30,000,000 of the authorised but unissued shares to be set aside for allocation and sale to the managers of the company. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 6 January 2011, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Senior managers	8,796,024

The options were granted at a subscription price of $16.94, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

	2017	**2016**
Movement on this option:	**'000**	**'000**
At 1 January	1,174	6,636
Granted	-	420
Exercised	(407)	(5,882)
Expired	(767)	-
At 31 December	-	1,174

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

17. Share Capital (Continued)

(e) At the Annual General Meeting held on 27 May 2009, the stockholders passed a resolution for authorised but unissued shares up to a maximum of 7½% of the total number of issued shares of no par value to be set aside for allocation and sale to the directors, managers and employees of the company. The allocation and sale of these shares will be governed by the provisions of the 2009 Stock Offer Plan for the Directors, Managers and Employees of GraceKennedy Limited and the plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

On 3 January 2011, under the rules of the Stock Offer Plan, the following allocation was made:

	No. of Shares
Directors	1,085,184

The options were granted at a subscription price of $16.75, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. The total of the grant to each director will fully vest on the third anniversary of the grant.

Movement on this option:	2017 '000	2016 '000
At 1 January	136	678
Exercised	-	(542)
At 31 December	136	136

On 8 December 2011, under the rules of the Stock Offer Plan, the following allocation was made:

	No. of Shares
Directors and senior executives	3,408,480

The options were granted at a subscription price of $20.40, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. The total of the grant to each director and senior executive will fully vest on the third anniversary of the grant.

Movement on this option:	2017 '000	2016 '000
At 1 January	1,334	3,213
Exercised	(1,236)	(1,879)
At 31 December	98	1,334

(f) In 2016, the company commenced operating a Long Term Incentive (LTI) Scheme administered by a committee of the Group's Board of Directors. The scheme is governed by the provisions of the 2009 Stock Offer Plan and includes the offer of restricted stock grants and stock options to executive directors and other senior executives. Participating executives are eligible to receive awards of restricted stock grants once certain predetermined Group performance objectives are met. These awards are earned annually following achievement of the performance objectives and are subject to a two year holding period from the end of the performance year after which the stock grants will vest and the executive will be entitled to receive the stock units. The stock option portion of the LTI scheme is granted annually and vesting is dependent on a time-based criterion.

The following allocation of stock options were made to executive directors and other senior executives:

	11 May 2017	12 May 2016
Number of shares	1,967,156	2,551,665
Subscription price	$42.09	$28.00

The subscription price that the options were granted at is the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date. The total of the grant to each executive director and other senior executive will fully vest on the third anniversary of the grant. After vesting executives will have up to five years to exercise the stock options.

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

17. Share Capital (Continued)

(f) Long term incentive plan (continued)

	2017 Offer	2016 Offer	Total	2017 Offer	2016 Offer	Total
		2017			2016	
Movement on this option:	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**
At 1 January	-	2,552	2,552	-	-	-
Granted	1,967	-	1,967	-	2,552	2,552
Exercised	-	(12)	(12)	-	-	-
Forfeited	(19)	(27)	(46)	-	-	-
At 31 December	1,948	2,513	4,461	-	2,552	2,552

(g) Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2017		2016	
Movement on this option:	**Average exercise price in $ per share**	**Options '000**	**Average exercise price in $ per share**	**Options '000**
At 1 January	23.26	5,196	17.99	10,527
Granted	42.09	1,967	26.44	2,972
Exercised	33.83	(1,655)	17.71	(8,303)
Forfeited	19.60	(46)	-	-
Expired	16.94	(767)	-	-
At 31 December	33.36	4,695	23.26	5,196

Shares totalling 234,000 (2016: 2,643,000) are exercisable at the statement of financial position date.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		2017	2016
	Exercise price in $ per share	**Options '000**	**Options '000**
2017	16.75	-	2,644
2018	20.40	234	-
2023	28.00	2,513	2,552
2024	42.09	1,948	-
		4,695	5,196

(h) The fair value of options granted determined using the Black-Scholes valuation model was $189,056,000. The significant inputs into the model were the weighted average share prices ranging from $17.00 to $42.09 at the grant dates, exercise prices ranging from $16.94 to $42.09, standard deviation of expected share price returns ranging from 29.1% to 33.2%, option life of six and eight years and risk-free interest rates ranging between 5.82% to 7.48%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the term of the options. The fair value of potential restricted stock grants to be earned is $232,447,000.

The expense recognised in the income statement for share-based payments was $56,960,000 (2016: $23,816,000).

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

18. Capital and Fair Value Reserves

	Group							
	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total
	2017				2016			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Realised gains on disposal of assets	102,738	-	-	102,738	102,738	-	-	102,738
Capital distributions received	46,164	-	-	46,164	46,164	-	-	46,164
Realised gain on sale of shares	115,507	-	-	115,507	109,107	-	-	109,107
Profits capitalised by Group companies	2,149,885	-	-	2,149,885	2,154,855	-	-	2,154,855
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	-	2,302,229	2,302,229	-	-	2,278,152	2,278,152
Fair value gains, net of deferred taxes	-	-	696,994	696,994	-	-	446,565	446,565
Loan loss reserve	-	628,271	-	628,271	-	620,016	-	620,016
Catastrophe reserve	12,270	-	-	12,270	12,270	-	-	12,270
Other	35,187	-	-	35,187	35,187	-	-	35,187
	2,461,751	628,271	2,999,223	6,089,245	2,460,321	620,016	2,724,717	5,805,054

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2017			2016		
	$'000	$'000	$'000	$'000	$'000	$'000
Capital distributions received	24,507	-	24,507	24,507	-	24,507
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	37,229	37,229	-	37,229	37,229
Fair value gains, net of deferred taxes	-	343,241	343,241	-	294,562	294,562
	24,507	380,470	404,977	24,507	331,791	356,298

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

19. Banking Reserves

Banking reserves represent both those reserves required to be maintained by the banking subsidiary, First Global Bank Limited (FGB), in compliance with the Jamaica Banking Services Act; as well as additional reserves that the Banking Services Act permits FGB to transfer from net profit to constitute part of its capital base for purposes of determining the maximum level of deposit liabilities and lending to customers.

20. Other Reserves

	Group			Company
	Foreign Currency Translation	Share-based Payments	Total	Share-based Payments
	$'000	$'000	$'000	$'000
At 1 January 2016	3,787,167	-	3,787,167	-
Equity holders' share of other comprehensive income	(278,818)	-	(278,818)	-
Transfer from retained earnings	-	233,991	233,991	202,266
Share-based payment expense	-	23,590	23,590	12,774
Transfer of treasury shares to employees	-	(146,669)	(146,669)	(146,669)
At 31 December 2016	3,508,349	110,912	3,619,261	68,371
Equity holders' share of other comprehensive income	(209,482)	-	(209,482)	-
Share-based payment expense	-	56,337	56,337	34,598
Transfer of treasury shares to employees	-	(37,667)	(37,667)	(37,667)
At 31 December 2017	3,298,867	129,582	3,428,449	65,302

(a) The reserve for foreign currency translation represents foreign exchange differences arising on translation of the Group's foreign operations to the presentation currency, Jamaican dollars.

(b) The reserve for share-based payments represents stock options and restricted stock units granted under the various equity compensation plans as described in Note 17.

21. Non-Controlling Interests

	2017	2016
	$'000	$'000
Beginning of year	1,474,683	1,325,621
Share of total comprehensive income:		
Share of net profit of subsidiaries	655,999	530,323
Remeasurement of post-employment benefit obligations	(6,189)	(1,684)
Other	(14,580)	12,207
	635,230	540,846
Transfer of non-controlling interest	-	(1,983)
Employee share option scheme: value of services received	623	226
Dividends paid	(321,235)	(390,027)
End of year	1,789,301	1,474,683

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

21. Non-Controlling Interests (Continued)

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

The total non-controlling interest for the period is $1,789,301,000 of which $1,745,962,000 is for GraceKennedy Money Services Caribbean SRL. The non-controlling interest in respect of other subsidiaries is not material.

In 2016, the Group increased its shareholdings in GK Insurance (Eastern Caribbean) Limited from 80% to 89.3% through the purchase of additional shares issued by that company. This intra-Group transaction resulted in the dilution of non-controlling interests shown in the table above as a transfer of $1,983,000.

Summarised financial information on subsidiaries with material non-controlling interests.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	GraceKennedy Money Services Caribbean SRL	
	2017	**2016**
	$'000	**$'000**
Current		
Assets	7,887,532	7,269,826
Liabilities	(2,570,355)	(1,998,794)
Total current net assets	5,317,177	5,271,032
Non-current		
Assets	2,180,296	889,296
Liabilities	(513,625)	(414,573)
Total non-current net assets	1,666,671	474,723
Net assets	6,983,848	5,745,755

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

21. Non-Controlling Interests (Continued)

Summarised income statement

	GraceKennedy Money Services Caribbean SRL	
	2017	**2016**
	$'000	**$'000**
Revenue	7,845,866	7,849,485
Profit before income tax	3,112,588	3,005,995
Taxation expense	(519,190)	(916,643)
Profit after tax	2,593,398	2,089,352
Other comprehensive income	(80,057)	39,752
Total comprehensive income	2,513,341	2,129,104
Total comprehensive income allocated to non-controlling interest	628,335	532,276
Dividends paid to non-controlling interest	(319,435)	(388,790)

Summarised cash flows

	GraceKennedy Money Services Caribbean SRL	
	2017	**2016**
	$'000	**$'000**
Cash flows from operating activities		
Cash generated from operations	3,491,539	2,098,155
Interest paid	(1,398)	6,253
Income tax paid	(1,069,860)	(711,899)
Net cash generated from operating activities	2,420,281	1,392,509
Net cash used in investing activities	(1,380,408)	(393,874)
Net cash used in financing activities	(940,234)	(1,555,610)
Net increase/(decrease) in cash and cash equivalents	99,639	(556,975)
Cash and cash equivalents at the beginning of year	4,546,868	5,020,008
Exchange (losses)/gains on cash and cash equivalents	(60,571)	83,835
Cash and cash equivalents at end of year	4,585,936	4,546,868

The information above represents amounts before intercompany eliminations.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

22. Segment Information

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Group has four reportable segments which are based on the different types of products and services that it offers. These products and services are described in its principal activities (Note 1). The reportable segments derive their revenue primarily from food trading and financial services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 2). The Group evaluates performance on the basis of profit or loss before tax expense not including post-employment benefits, share-based payments and net corporate central office costs which are shown in unallocated amounts. Segment information also excludes discontinued operations.

The segment information provided to management for the reportable segments is as follows:

Operating segments

	2017					
	Food Trading	**Banking & Investments**	**Insurance**	**Money Services**	**Unallocated/ Elimination**	**Group**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
REVENUE						
External sales	72,609,349	5,979,211	6,041,226	7,845,866	-	92,475,652
Inter-segment sales	182,131	70,223	384,626	-	(636,980)	-
Total Revenue	72,791,480	6,049,434	6,425,852	7,845,866	(636,980)	92,475,652
Operating results	1,671,493	587,631	549,461	3,153,897	28,473	5,990,955
Unallocated expense	-	-	-	-	(371,720)	(371,720)
Profit from operations	-	-	-	-	-	5,619,235
Finance income	19,048	53,834	19,431	22,136	263,763	378,212
Finance expense	(509,495)	(81,615)	(1,679)	(1,397)	(68,671)	(662,857)
Share of results of associates	369,984	115,520	(532)	-	-	484,972
Profit before taxation	1,551,030	675,370	566,681	3,174,636	(148,155)	5,819,562
Taxation						(1,047,462)
Net Profit						4,772,100
Operating assets	42,103,242	58,311,856	14,898,295	9,373,867	(4,440,850)	120,246,410
Investment in associates	933,140	854,947	-	10,133	-	1,798,220
Unallocated assets	-	-	-	-	7,944,010	7,944,010
Total assets	43,036,382	59,166,803	14,898,295	9,384,000	3,503,160	129,988,640
Operating liabilities	20,830,212	47,818,655	9,453,650	2,467,771	(4,520,531)	76,049,757
Unallocated liabilities	-	-	-	-	6,926,770	6,926,770
Total liabilities	20,830,212	47,818,655	9,453,650	2,467,771	2,406,239	82,976,527
Other segment items						
Additions to non-current assets [(b)]	1,089,445	264,036	381,754	1,271,342	-	3,006,577
Depreciation	(723,982)	(141,545)	(46,146)	(72,493)	-	(984,166)
Amortisation	(236,727)	(160,088)	(98,296)	(91,259)	-	(586,370)

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

22. Segment Information (Continued)

Operating segments (continued)

	2016					
	Food Trading	**Banking & Investments**	**Insurance**	**Money Services**	**Unallocated/ Elimination**	**Group**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
REVENUE						
External sales	68,807,268	5,581,914	6,028,922	7,849,485	-	88,267,589
Inter-segment sales	264,683	41,013	337,495	-	(643,191)	-
Total Revenue	69,071,951	5,622,927	6,366,417	7,849,485	(643,191)	88,267,589
Operating results	1,434,989	350,640	780,200	3,068,975	32,800	5,667,604
Unallocated income	-	-	-	-	299,155	299,155
Profit from operations	-	-	-	-	-	5,966,759
Finance income	4,862	61,782	20,537	24,887	260,208	372,276
Finance expense	(473,856)	(117,871)	(8,723)	(24,616)	(51,790)	(676,856)
Share of results of associates	360,539	83,472	(2,860)	-	-	441,151
Profit before taxation	1,326,534	378,023	789,154	3,069,246	540,373	6,103,330
Taxation						(1,568,468)
Net Profit						4,534,862
Operating assets	41,473,433	60,499,830	12,354,853	7,952,217	(4,912,493)	117,367,840
Investment in associates	859,721	801,186	72,944	10,133	-	1,743,984
Unallocated assets	-	-	-	-	7,367,325	7,367,325
Total assets	42,333,154	61,301,016	12,427,797	7,962,350	2,454,832	126,479,149
Operating liabilities	22,029,278	50,602,324	7,091,048	1,762,221	(4,920,333)	76,564,538
Unallocated liabilities	-	-	-	-	6,376,003	6,376,003
Total liabilities	22,029,278	50,602,324	7,091,048	1,762,221	1,455,670	82,940,541
Other segment items						
Additions to non-current assets [(b)]	1,585,246	321,135	55,331	395,907	-	2,357,619
Depreciation	(633,070)	(125,104)	(51,718)	(78,681)	-	(888,573)
Amortisation	(221,346)	(167,887)	(95,138)	(93,845)	-	(578,216)

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

22. Segment Information (Continued)

Operating segments (continued)

The profit or loss, assets and liabilities for reportable segments are reconciled to the totals for profit or loss, assets and liabilities as follows:

	Profit before Taxation		Assets		Liabilities	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Total for reportable segments	5,967,717	5,562,957	126,485,480	124,024,317	80,570,288	81,484,871
Inter-segment eliminations	-	-	(4,440,850)	(4,912,493)	(4,520,531)	(4,920,333)
Unallocated amounts:						
Corporate central office results	538,032	1,232,978	-	-	-	-
Post-employment benefits	(629,227)	(668,789)	-	-	-	-
Share-based payments	(56,960)	(23,816)	-	-	-	-
Taxation recoverable	-	-	798,690	424,239	-	-
Deferred tax assets	-	-	836,477	801,008	-	-
Pension plan asset	-	-	6,308,843	6,142,078	-	-
Taxation	-	-	-	-	427,486	572,331
Deferred tax liabilities	-	-	-	-	1,369,294	1,397,657
Other post-employment obligations	-	-	-	-	5,129,990	4,406,015
Total unallocated	(148,155)	540,373	7,944,010	7,367,325	6,926,770	6,376,003
Total per financial statements	5,819,562	6,103,330	129,988,640	126,479,149	82,976,527	82,940,541

Geographical information

	Revenue [a]		Non-current Assets [b]	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Jamaica	47,656,940	45,343,688	12,994,276	10,746,282
United Kingdom	12,297,058	12,577,499	1,280,831	1,249,059
United States of America	18,123,196	16,895,671	2,961,132	3,149,046
Canada	5,899,908	5,322,251	61,414	23,654
Other Caribbean countries	6,672,710	6,339,280	1,232,355	1,295,886
Other European countries	1,565,325	1,480,462	-	-
Africa	125,223	164,128	-	-
Other countries	135,292	144,610	-	-
Total	92,475,652	88,267,589	18,530,008	16,463,927

(a) Revenue is attributed to countries on the basis of the customer's location.

(b) For the purposes of segment information, non-current assets exclude financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts, as well as discontinued operations.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

23. Revenues

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Sales of products	72,609,349	68,807,268	17,623,999	16,974,486
Sales of services	7,845,866	7,849,479	-	-
Financial services income	7,767,500	7,502,590	-	-
Interest income on investments classified as –				
Available-for-sale securities	1,198,332	1,095,713	-	-
Interest income on loans receivable	3,054,605	3,012,539	-	-
	92,475,652	88,267,589	17,623,999	16,974,486

24. Expense by Nature

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Auditors' remuneration	179,413	199,821	19,368	21,566
Advertising and marketing	2,748,920	3,045,966	1,013,069	1,369,234
Amortisation of intangibles	586,370	578,216	63,389	58,860
Commissions and other money services costs	1,772,962	1,785,563	-	-
Cost of inventory recognised as expense	50,430,582	47,624,588	13,310,172	12,843,296
Depreciation	984,166	888,573	71,313	66,261
Insurance	607,187	605,524	101,020	99,336
Interest expense and other financial services expenses	5,213,261	4,994,848	-	-
Legal, professional and other fees	3,639,848	3,010,186	573,564	539,041
Occupancy costs - Lease rental charges, utilities, etc.	3,265,280	2,949,203	605,355	560,004
Repairs and maintenance expenditure	714,627	674,540	41,001	27,653
Staff costs (Note 26)	13,795,418	13,525,639	3,583,723	3,440,691
Transportation	1,842,927	1,764,565	397,639	381,081
Other expenses	3,163,462	3,037,331	1,082,567	979,401
	88,944,423	84,684,563	20,862,180	20,386,424

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

25. Other Income

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Dividend income	15,489	17,235	2,196,038	2,136,935
Net foreign exchange gains	282,776	785,385	16,817	343,196
Change in fair value of investment properties	34,000	13,357	-	-
Change in value of investments – fair value through profit or loss	(1,148)	1,780	-	-
Gain on acquisition of subsidiary (Note 39)	418,460	-	-	-
Gain on disposal of investments	45,699	610,574	10,531	40,388
(Loss)/gain on disposal of fixed assets	(8,200)	(18,659)	1,210	2,744
Fees and commissions	486,870	309,950	2,340,855	2,230,133
Interest income – available-for-sale securities	324,046	327,391	-	-
Rebates, reimbursements and recoveries	239,093	159,325	36,278	34,914
Miscellaneous	250,921	177,395	17,041	10,707
	2,088,006	2,383,733	4,618,770	4,799,017

26. Staff Costs

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Wages and salaries	9,743,090	9,689,561	2,335,102	2,161,240
Pension (Note 14)	174,000	291,170	174,000	291,170
Pension contributions to defined contribution scheme (Note 14)	293,859	248,811	60,073	47,683
Other post-employment benefits (Note 14)	621,224	564,215	271,952	268,358
Share-based payments	56,960	23,816	34,598	12,774
Statutory contributions	918,470	887,900	230,219	208,368
Other costs	1,987,815	1,820,166	477,779	451,098
	13,795,418	13,525,639	3,583,723	3,440,691

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

27. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Current tax	1,323,159	1,686,038	12,991	6,841
Adjustment to prior year provision	(149,626)	(119,115)	-	-
Deferred tax (Note 13)	(126,071)	1,545	(167,735)	(162,927)
	1,047,462	1,568,468	(154,744)	(156,086)

The tax on the Group's and company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the company as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Profit before tax	5,819,562	6,103,330	1,579,980	1,581,155
Tax calculated at a tax rate of 25%	1,454,891	1,525,833	394,995	395,289
Adjusted for the effects of:				
Different tax rates in other countries	68,857	(12,532)	-	-
Different tax rate of regulated Jamaican companies	276,446	216,993	-	-
Income not subject to tax	(296,163)	(245,032)	(582,440)	(563,923)
Expenses not deductible for tax purposes	230,385	316,096	33,432	14,897
Adjustment to prior year provision	(149,626)	(119,115)	-	-
Share of profits of associates included net of tax	(121,243)	(110,288)	-	-
Employment tax credit	-	(2,441)	-	-
Urban renewal tax credit	(416,449)	-	-	-
Other	364	(1,046)	(731)	(2,349)
Tax expense/(credit)	1,047,462	1,568,468	(154,744)	(156,086)

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

27. Taxation (Continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Group					
	2017			2016		
	Before tax	Tax charge	After tax	Before tax	Tax (charge)/ credit	After tax
	$'000	$'000	$'000	$'000	$'000	$'000
Items that will not be reclassified to profit or loss:						
Revaluation surplus	2,500	20,527	23,027	561,179	(130,147)	431,032
Remeasurements of post-employment benefit obligations	72,015	(13,081)	58,934	888,702	(224,241)	664,461
Share of other comprehensive income of associated companies	3,436	-	3,436	24,327	-	24,327
	77,951	7,446	85,397	1,474,208	(354,388)	1,119,820
Items that may be subsequently reclassified to profit or loss:						
Foreign currency translation adjustments	(201,407)	-	(201,407)	(346,623)	-	(346,623)
Fair value gains	321,921	(71,244)	250,677	468,572	(159,907)	308,665
Share of other comprehensive income of associated companies	(22,903)	-	(22,903)	80,322	-	80,322
	97,611	(71,244)	26,367	202,271	(159,907)	42,364
Other comprehensive income	175,562	(63,798)	111,764	1,676,479	(514,295)	1,162,184
Deferred tax (Note 13)	-	(63,798)	-	-	(514,295)	-

	Company					
	2017			2016		
	Before tax	Tax charge	After tax	Before tax	Tax credit/ (charge)	After tax
	$'000	$'000	$'000	$'000	$'000	$'000
Items that will not be reclassified to profit or loss:						
Revaluation surplus	-	-	-	9,610	(2,076)	7,534
Remeasurements of post-employment benefit obligations	222,186	(55,547)	166,639	950,841	(237,710)	713,131
	222,186	(55,547)	166,639	960,451	(239,786)	720,665
Items that may be subsequently reclassified to profit or loss:						
Fair value gains	56,372	(14,093)	42,279	93,590	(23,398)	70,192
	56,372	(14,093)	42,279	93,590	(23,398)	70,192
Other comprehensive income	278,558	(69,640)	208,918	1,054,041	(263,184)	790,857
Deferred tax (Note 13)	-	(69,640)	-	-	(263,184)	-

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

28. Net Profit Attributable to the Owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2017 $'000	2016 $'000
The company	1,734,724	1,737,241
Intra-group dividends, gain on disposal of subsidiaries within the Group and other eliminations on consolidation	(2,198,630)	(2,173,411)
Adjusted company loss	(463,906)	(436,170)
The subsidiaries	4,095,035	3,999,558
The associates	484,972	441,151
	4,116,101	4,004,539

29. Dividends

		2017 $'000	2016 $'000
Paid,			
Interim	– 30 cents per stock unit (2016 : 26 cents)	297,804	257,610
Interim	– 38 cents per stock unit (2016 : 34 cents)	377,111	336,589
Final	– 45 cents per stock unit (2016 : 42 cents)	446,604	416,224
		1,121,519	1,010,423

30. Earnings Per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to owners by the weighted average number of ordinary stock units outstanding during the year.

	2017	2016
Net profit attributable to owners ($'000)	4,116,101	4,004,539
Weighted average number of stock units outstanding ('000)	992,654	991,445
Basic earnings per stock unit ($)	4.15	4.04

The diluted earnings per stock unit is calculated by adjusting the weighted average number of ordinary stock units outstanding to assume conversion of all dilutive potential ordinary stock units.

(a) 2,079,000 (2016: 2,551,000) ordinary stock units for the full year in respect of stock options for directors.

(b) 2,616,000 (2016: 2,645,000) ordinary stock units for the full year in respect of the stock options for managers.

	2017	2016
Net profit attributable to owners ($'000)	4,116,101	4,004,539
Weighted average number of stock units outstanding ('000)	992,654	991,445
Adjustment for share options ('000)	964	1,642
	993,618	993,087
Diluted earnings per stock unit ($)	4.14	4.03

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

		Group		Company	
		2017	2016	2017	2016
	Note	$'000	$'000	$'000	$'000
Net profit		4,772,100	4,534,862	1,734,724	1,737,241
Items not affecting cash:					
Depreciation	12	984,166	888,573	71,313	66,261
Amortisation	11	586,370	578,216	63,389	58,860
Change in value of investment properties		(34,000)	(13,357)	-	-
Change in value of investments		1,148	(1,780)	-	-
Loss/(gain) on disposal of fixed assets		8,200	18,659	(1,210)	(2,744)
Gain on disposal of investments		(45,699)	(610,574)	(10,531)	(40,388)
Gain on acquisition of subsidiary		(418,460)	-	-	-
Share-based payments	17	56,960	23,816	34,598	12,774
Exchange loss/(gain) on foreign balances		189,174	(715,130)	72,207	(142,742)
Interest income – non financial services		(378,212)	(372,276)	(541,547)	(549,282)
Interest income – financial services		(4,576,984)	(4,435,643)	-	-
Interest expense – non financial services		662,857	676,856	342,156	355,206
Interest expense – financial services		1,025,627	1,026,603	-	-
Taxation expense	27	1,047,462	1,568,468	(154,744)	(156,086)
Unremitted equity income in associates		(146,490)	(147,256)	-	-
Pension plan surplus		173,014	290,430	173,014	290,430
Other post-employment obligations		456,213	378,359	162,579	160,524
		4,363,446	3,688,826	1,945,948	1,790,054
Changes in working capital components:					
Inventories		452,306	(1,420,086)	168,509	(301,032)
Receivables		(1,858,404)	(2,109,669)	(83,080)	(6,575)
Loans receivable, net		(1,787,965)	(3,152,875)	-	-
Payables		1,763,059	3,108,919	(35,051)	336,115
Deposits		3,271,821	5,403,177	-	-
Securities sold under repurchase agreements		(8,388,536)	3,362,298	-	-
Subsidiaries		-	-	36,051	707,017
Total (used in)/provided by operating activities		(2,184,273)	8,880,590	2,032,377	2,525,579

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

31. Cash Flows from Operating Activities (Continued)

Reconciliation of net profit to cash generated from operating activities (continued):

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cash (used in)/provided by operating activities	(2,184,273)	8,880,590	2,032,377	2,525,579
Interest received – financial services	4,555,353	4,423,952	-	-
Interest paid – financial services	(1,058,846)	(1,009,944)	-	-
Translation losses	(113,163)	(21,754)	-	-
Taxation paid	(1,692,831)	(1,150,594)	(53,073)	(51,514)
Net cash (used in)/provided by operating activities	(493,760)	11,122,250	1,979,304	2,474,065

Reconciliation of movements of liabilities to cash flows arising from financing activities:

Amounts represent bank and other loans, excluding bank overdrafts

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
At January 1	11,276,191	11,108,748	3,391,830	3,798,439
Loans received	5,284,480	2,949,444	1,805,086	609,344
Loans repaid	(2,568,620)	(2,995,936)	(1,108,119)	(1,121,365)
Foreign exchange adjustments	(124,254)	219,300	(59,522)	115,697
Net interest movements	(34,132)	(5,365)	(6,832)	(10,285)
At 31 December	13,833,665	11,276,191	4,022,443	3,391,830

32. Commitments

(a) Future lease payments under operating leases at 31 December 2017 were as follows:

		$'000
In financial year	2018	1,403,165
	2019	1,215,415
	2020	996,152
	2021	773,273
	2022	541,054
	2023 and beyond	1,258,585

(b) At 31 December 2017, the Group had $2,126,181,000 (2016: $2,352,326,000) in authorised capital expenditure for which it had established contracts.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

33. Contingent Liabilities

(a) There are no material legal claims or other contingent liabilities pending at the current year-end.

(b) In the prior year, there was a suit filed in 2000 jointly against a subsidiary, GraceKennedy Remittance Services Limited ("GKRS") and a software developer by Paymaster (Jamaica) Limited (Paymaster), a bills payment company. The suit claimed damages arising out of, amongst other allegations, the use by the subsidiary of certain software, to which Paymaster alleged it owned the copyright.

In the judgment handed down by the Supreme Court on 30 April 2010, the Court ruled in favour of GKRS and the software developer on all claims. Accordingly, the Court ordered costs to be paid by Paymaster to GKRS and the software developer and an enquiry into any damages suffered by GKRS and the software developer as a result of an injunction obtained by Paymaster in the suit. On 10 June 2010, Paymaster filed an appeal against the decision of the Supreme Court in the Court of Appeal and applied for a stay of execution, pending the appeal. Further to an application made by Paymaster to the Court of Appeal the enquiry into damages resulting from the injunction by the Supreme Court was on 6 May 2011 stayed pending appeal.

On 27 March 2015, the Court of Appeal handed down judgment, finding against GKRS in respect of one of the grounds of appeal. On 21 September 2015, the Court of Appeal granted both GKRS and Paymaster conditional leave to appeal to the Privy Council against its decision and also granted each of these parties a stay of execution of the Court of Appeal judgment pending appeal to the Privy Council.

On 11 December 2017, the Privy Council ruled unanimously in favour of GKRS on all claims, allowing GKRS' appeal and dismissing Paymaster's counter appeal. On the claim of breach of confidence, the Privy Council found that there was no information in the business plan which was used by GKRS and further that nothing in the software or manual given to GKRS could have been considered confidential. With respect to the copyright claim the Privy Council ruled that Paymaster did not own the copyright in the software. This brought to a close the matter of any potential liabilities for the Group in relation to this claim.

(c) Various companies in the Group are involved in certain legal proceedings incidental to the normal conduct of business. The management of these companies believes that none of these proceedings, individually or in aggregate, will have a material effect on the Group.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

34. Related Party Transactions and Balances

The following transactions were carried out with related parties:

		Group		Company	
		2017	**2016**	**2017**	**2016**
		$'000	**$'000**	**$'000**	**$'000**
(a)	**Sales of goods and services**				
	Sales of goods	2,610	2,478	418,210	437,596
	Sales of services	91,443	94,814	2,166,356	2,095,000
(b)	**Purchase of goods and services**				
	Purchases of goods	3,094,559	2,812,682	7,076,255	6,782,851
	Purchases of services	-	-	472,557	455,495
(c)	**Interest**				
	Interest income	1,670	637	180,219	199,234
	Interest expense	25,273	9,543	93,685	103,753

Dividends received by the company from subsidiaries and associated companies were $1,893,369,000 (2016: $1,877,232,000) and $300,000,000 (2016: $255,000,000) respectively.

(d) Transactions with key management

Key management includes directors (executive and non-executive) and members of the Executive Committee

The compensation of key management for services is shown below:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Salaries and other short-term employee benefits	371,093	339,902	240,645	210,535
Fees paid to directors	35,204	36,291	29,057	29,207
Post-employment benefits	(4,550)	15,634	(13,851)	9,366
Share-based payments	37,742	16,157	27,604	11,852
	439,489	407,984	283,455	260,960

The following amounts are in respect of directors' emoluments:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Fees	35,204	36,291	29,057	29,207
Management remuneration	135,774	120,638	135,774	103,560
Post-employment benefits paid	37,208	35,809	7,262	7,072
	208,186	192,738	172,093	139,839

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

34. Related Party Transactions and Balances (Continued)

(d) Transactions with key management (continued)

Transactions with directors and other key management personnel (and their families)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Sale of goods and services –				
Sales of goods	1,153	493	1,153	493
Sales of services	2,583	3,120	-	-
Purchase of goods and services –				
Purchase of services	-	80	-	80
Interest earned and incurred –				
Interest income	1,513	1,826	-	-
Interest expense	8,740	6,673	-	-

Transactions with companies controlled by directors and other key management personnel

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Sale of goods and services –				
Sales of services	557	638	-	-

(e) Year-end balances with related parties

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cash and deposits with subsidiaries	-	-	262,812	476,918
Investment securities with subsidiaries	-	-	227,035	387,516
Receivable from subsidiaries	-	-	1,063,372	479,762
Receivable from associates (Note 7)	14,122	33,678	3,168	29,228
Loans receivable from subsidiaries (Note 9)	-	-	3,238,328	3,012,013
Payable to subsidiaries	-	-	3,403,955	2,784,294
Payable to associates (Note 16)	246,867	539,325	143,778	326,782
Loans & leases payable to subsidiaries	-	-	245,073	288,887
Deposits payable to associates	538,500	464,754	-	-

(f) Loans to related parties

Loans receivable from subsidiaries are repayable in the years 2017 - 2025 and bear interest at 0% - 9.5% (2016: 0% - 10.0%). No provision was required in 2017 and 2016 for loans made to subsidiaries.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

34. Related Party Transactions and Balances (Continued)

(f) Loans to related parties (continued)

	Company	
	2017	**2016**
	$'000	**$'000**
Loans to subsidiaries:		
At 1 January	3,012,013	2,944,443
Loans advanced during the year	970,000	182,795
Loan repayments received	(718,285)	(197,804)
Exchange differences	(57,744)	78,222
Interest charged	143,451	94,985
Interest received	(111,107)	(90,628)
At 31 December	3,238,328	3,012,013

(g) Year end balances with directors and other key management

Balances with directors and other key management personnel (and their families)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Receivables	633	864	183	217
Loans receivable	75,818	115,235	59,114	99,637
Deposits payable	300,958	296,304	-	-

(h) Loans to directors and other key management

The loans receivable attract interest at rates ranging between 0% - 10.5% (2016: 0% - 10.5%) and are repayable in the years 2017 - 2025. These loans are secured and are made on terms similar to those offered to other employees. No provision was required in 2017 and 2016 for the loans made to directors and senior managers.

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Loans to directors and other key management:				
At 1 January	115,235	138,483	99,637	117,550
Loans advanced during the year	4,170	5,479	-	4,608
Loan repayments received	(43,051)	(28,727)	(40,523)	(22,521)
Exchange differences	(536)	-		
Interest charged	1,513	1,826	-	-
Interest received	(1,513)	(1,826)	-	-
At 31 December	75,818	115,235	59,114	99,637

(i) Share options granted to directors

The outstanding number of share options granted to the directors of the company at the end of the year was 2,079,000 (2016: 2,551,000).

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values Estimation

Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following tables provide an analysis of the Group's and company's financial instruments held as at 31 December that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets or liabilities.
- Level 2 includes those instruments which are measured using inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments which are measured using valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

	Group			
	2017			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale securities:				
Quoted equities	579,692	-	-	579,692
Bank of Jamaica	-	9,912,692	-	9,912,692
Government of Jamaica securities	-	12,944,286	-	12,944,286
Foreign governments	-	885,415	-	885,415
Corporate bonds	-	9,472,499	-	9,472,499
Other debt securities	-	2,954,634	-	2,954,634
Other	-	5,779	-	5,779
Financial assets at fair value through profit or loss:				
Quoted equities	25,344	-	-	25,344
Total Assets	605,036	36,175,305	-	36,780,341

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values Estimation (Continued)

Financial Instruments (continued)

	Group			
	2016			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	353,294	-	-	353,294
Bank of Jamaica	-	10,587,210	-	10,587,210
Government of Jamaica securities	-	17,883,313	-	17,883,313
Foreign governments	-	799,671	-	799,671
Corporate bonds	-	6,719,569	969	6,720,538
Other debt securities	-	2,845,341	-	2,845,341
Other	-	5,779	-	5,779
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	86,223	-	86,223
Quoted equities	12,304	-	-	12,304
Total Assets	365,598	38,927,106	969	39,293,673

	Company			
	2017			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	48,502	-	-	48,502
Government of Jamaica securities	-	2,995,852	-	2,995,852
Corporate bonds	-	1,954,336	-	1,954,336
Other debt securities	-	1,514,573	-	1,514,573
Other	-	335	-	335
Total Assets	48,502	6,465,096	-	6,513,598

GraceKennedy Limited

Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values Estimation (Continued)

Financial Instruments (continued)

	Company			
	2016			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale securities:				
Quoted equities	59,514	-	-	59,514
Government of Jamaica securities	-	3,531,448	-	3,531,448
Corporate bonds	-	1,608,075	-	1,608,075
Other debt securities	-	1,562,237	-	1,562,237
Other	-	335	-	335
Total Assets	59,514	6,702,095	-	6,761,609

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments listed on a public stock exchange classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values Estimation (Continued)

Financial Instruments (continued)

Note that all of the resulting fair value estimates are included in level 2 except for certain corporate bonds as explained below.

The following table presents the changes in level 3 instruments for the years ended 31 December.

	Group	
	2017	**2016**
	$'000	**$'000**
At beginning of year	969	103,356
Acquisitions	-	227
Disposals	(969)	(102,614)
At end of year	-	969

There were no transfers between the levels during the year.

Fair Value of Land and Buildings and Investment Properties

An independent valuation of the Group's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2016. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'capital and fair value reserves' in shareholders' equity (Note 18). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Land and buildings and investment properties are classified as level 3. The valuations have been performed using the sales comparison and income approaches for all properties except the Distribution Centre, which is valued using the cost approach.

The carrying value of land and buildings classified as level 3 is $5,741,334,000 (2016: $5,844,749,000) and $72,576,000 (2016: $74,000,000) for the Group and company respectively. Included in Group's land and buildings is the Distribution Centre with a carrying value of $3,207,522,000 (2016: $3,285,000,000).

The carrying value of investment properties classified as level 3 is $618,000,000 (2016: $584,000,000).

Reconciliation of the opening and closing balances of the Group's land and buildings:

	Distribution center	Other land and buildings	Total	Distribution center	Other land and buildings	Total
		2017			2016	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At beginning of year	3,285,000	2,559,749	5,844,749	2,978,398	2,292,535	5,270,933
Additions and transfers in	4,806	26,628	31,434	1,638	54,442	56,080
Revaluation adjustment	-	2,500	2,500	381,334	179,845	561,179
Disposals and transfers out	-	-	-	-	53	53
Depreciation	(82,284)	(27,274)	(109,558)	(76,370)	(25,817)	(102,187)
Translation adjustment	-	(27,791)	(27,791)	-	58,691	58,691
At end of year	3,207,522	2,533,812	5,741,334	3,285,000	2,559,749	5,844,749

There were no transfers to/from Level 3 during the year.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values Estimation (Continued)

Fair Value of Land and Buildings and Investment Properties (continued)

A reconciliation of the opening and closing balances for the company's land and buildings and the Group's investment properties are disclosed in Notes 12 and 38 respectively.

Valuation processes of the Group

On a biennial basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. The most recent valuations were performed as at 31 December 2016. The Group engages external, independent and qualified valuers to determine the fair value of its investment properties on an annual basis.

Sales Comparison Approach

There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale, quality of land and buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

Income Approach

The projected net income of the subject properties are discounted using an appropriate capitalisation rate. The most significant inputs to this valuation is the rental rate per square foot and the capitalisation rate. Rental rates of the subject properties are adjusted to reflect the market rent for properties of similar size, location and condition. The higher the rental rate per square foot the higher the fair value. The higher the capitalisation rate the lower the fair value. The average rent per square foot ranges between $450 to $500 and the capitalisation rate ranges between 9% - 10%.

Cost Approach

The fair value of the Distribution Centre has been determined using the cost approach due to specialised nature of the asset. The key inputs into this valuation are shown in the table below.

Distribution Centre

Description	Fair value at 31 December 2017 $'000	Fair value at 31 December 2016 $'000	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs
Distribution centre	3,207,522	3,285,000	Cost approach	Certified costs of construction as at date of completion of property	US$21,500,000 - US$22,000,000	The higher the costs of construction the higher the fair value
				Rate of increase in construction costs from date of last valuation	2017: 10% - 12% 2016: 10% - 12%	The higher the rate of increase in construction costs the higher the fair value
				Professional fees - architects, quantity surveyors, engineers	8%	The higher the professional fees the higher the fair value
				Interest cost	2017: 10% - 12% 2016: 10% - 12%	The higher the interest cost the higher the fair value
				Estimated profit margin required by developer	5%	The higher the developer's profit the higher the fair value
				Rate of obsolescence	9%	The higher the rate of obsolescence the lower the fair value
	3,207,522	3,285,000				

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

36. Financial Instruments by Category

	Group			
	Loans and receivables $'000	**Assets at fair value through profit or loss $'000**	**Available for for sale $'000**	**Total $'000**
As at 31 December 2017:				
Cash and deposits	12,084,245	-	-	12,084,245
Investment securities and pledged assets	-	25,344	36,754,997	36,780,341
Loans receivable	27,548,329	-	-	27,548,329
Trade and other receivables	13,789,630	-	-	13,789,630
Total financial assets	53,422,204	25,344	36,754,997	90,202,545

	Group			
	Loans and receivables $'000	**Assets at fair value through profit or loss $'000**	**Available for for sale $'000**	**Total $'000**
As at 31 December 2016:				
Cash and deposits	12,276,647	-	-	12,276,647
Investment securities and pledged assets	-	98,527	39,195,146	39,293,673
Loans receivable	25,928,057	-	-	25,928,057
Trade and other receivables	11,510,595	-	-	11,510,595
Total financial assets	49,715,299	98,527	39,195,146	89,008,972

	Group
	Other financial liabilities at amortised cost $'000
As at 31 December 2017:	
Deposits	33,530,523
Securities sold under agreements to repurchase	3,792,720
Bank and other loans	16,515,615
Trade and other payables	19,366,495
Total financial liabilities	73,205,353

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

36. Financial Instruments by Category (Continued)

	Group
	Other financial liabilities at amortised cost $'000
As at 31 December 2016:	
Deposits	30,653,888
Securities sold under agreements to repurchase	12,343,432
Bank and other loans	13,242,037
Trade and other payables	17,561,983
Total financial liabilities	73,801,340

	Company		
	Loans and receivables $'000	Available for for sale $'000	Total $'000
As at 31 December 2017:			
Cash and deposits	1,944,451	-	1,944,451
Investment securities and pledged assets	-	6,513,598	6,513,598
Loans receivable	3,359,306	-	3,359,306
Trade and other receivables	1,360,633	-	1,360,633
Subsidiaries	1,063,372	-	1,063,372
Total financial assets	7,727,762	6,513,598	14,241,360

	Company		
	Loans and receivables $'000	Available for for sale $'000	Total $'000
As at 31 December 2016:			
Cash and deposits	2,600,811	-	2,600,811
Investment securities and pledged assets	-	6,761,609	6,761,609
Loans receivable	3,175,183	-	3,175,183
Trade and other receivables	1,248,298	-	1,248,298
Subsidiaries	479,762	-	479,762
Total financial assets	7,504,054	6,761,609	14,265,663

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

36. Financial Instruments by Category (Continued)

	Company
	Other financial liabilities at amortised cost
	$'000
As at 31 December 2017:	
Bank and other loans	4,053,268
Trade and other payables	2,544,670
Subsidiaries	3,403,955
Total financial liabilities	10,001,893

	Company
	Other financial liabilities at amortised cost
	$'000
As at 31 December 2016:	
Bank and other loans	4,446,639
Trade and other payables	2,600,965
Subsidiaries	2,784,294
Total financial liabilities	9,831,898

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

37. Derivative Financial Instruments

Derivatives are carried at fair value in the statement of financial position as either assets or liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group was to default. The fair values are set out below:

	Group			
	2017		2016	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Embedded put option issued by Government of Jamaica	-	-	86,223	-
Total	-	-	86,223	-

The Group holds certain Government of Jamaica debt securities which mature in February 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. In 2017 the Group exercised the put option by notifying the Government of Jamaica and consequently retained no further interest in the derivative instrument at the year-end.

38. Investment Properties

	Group	
	2017 $'000	2016 $'000
At 1 January	584,000	532,000
Additions	-	38,643
Change in fair value	34,000	13,357
At 31 December	618,000	584,000

The following amounts have been recognised in the income statement:

	Group	
	2017 $'000	2016 $'000
Rental income arising from investment properties	26,086	25,859
Direct operating expenses arising from investment properties	9,690	10,904

Investment properties comprise commercial properties that are leased to third parties.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

39. Business Combinations

On 31 August 2017, the Group acquired 100% of the share capital of Consumer Brands Limited (CBL), a distributor of recognised international and local third party branded household products in Jamaica. The acquisition has expanded the range of branded products that the Group distributes in Jamaica and complements the Group's expertise in managing top tier brands and deep distribution channels.

The purchase consideration on the date of acquisition comprised of an initial payment with a balance paid subsequent to completion as well as contingent consideration of $383,659,000. The contingent consideration is dependent on the collection of receivables up to an amount of $275,049,000 payable in cash representing the amounts collected in the first 120 days since acquisition. At 31 December 2017 this amount was fully settled. In addition, on the retention of certain supplier relationships over the next two years, further consideration up to an amount of $108,610,000 is payable in cash with 50% being payable on 31 August 2018 and the remaining amount on 31 August 2019. This amount remains unchanged at 31 December 2017.

The fair value of trade and other receivables on acquisition date was $301,926,000. This balance was fully settled as at 31 December 2017.

CBL contributed revenue of $877,497,000 and profit after tax of $82,458,000 to the Group since being acquired.

Had the business been consolidated from 1 January 2017, the consolidated income statement would show pro-forma revenue of $94,009,864,000 and profit after tax of $4,807,011,000. The amounts have been calculated by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2017, together with the consequential tax effects.

A gain of $418,460,000 was realised on the acquisition due to the value of intangible assets acquired, being supplier and customer relationships, exceeding the premium paid above book value. A significant factor contributing to the gain was synergies arising out of the relative strength and market position of the Group. The gain is shown in Other Income (Note 25) in the income statement.

Acquisition-related costs of $11,749,000 have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2017.

The following table summarises the purchase consideration, net assets acquired and gain on acquisition:

	31 August 2017 $'000
Purchase consideration:	
Cash paid on date of acquisition	496,330
Cash paid subsequent to acquisition in relation to completion	228,181
Cash paid subsequent to acquisition in relation to contingent consideration	275,049
Balance due on contingent consideration	108,610
Total purchase consideration	1,108,170
Assets and liabilities arising from the acquisition:	
Cash and cash equivalents	357,590
Customer relationships (included in intangibles) (Note 11)	61,000
Supplier relationships (included in intangibles) (Note 11)	576,000
Inventories	244,163
Trade and other receivables	301,926
Trade and other payables	(14,049)
Fair value of net assets acquired	1,526,630
Gain on acquisition of subsidiary (Note 25)	(418,460)
Purchase consideration settled in cash	496,330
Cash and cash equivalents in business acquired	(357,590)
Cash outflow on acquisition	138,740
Purchase consideration settled in cash	999,560
Cash and cash equivalents in business acquired	(357,590)
Cash outflow at end of year	641,970

There were no acquisitions in the year ended 31 December 2016.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

40. Subsequent Event

On 1 March 2018, the Board of Directors approved an interim dividend in respect of 2018 of 40 cents per ordinary stock unit. The dividend is payable on 18 May 2018 to shareholders on record as at 1 May 2018.

Form of Proxy.

I/We ____

of ____

being a member/members of **GraceKennedy Limited** hereby appoint ____________________

______________________________ of ______________________________

or failing him/her ____

of ____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on **Wednesday, 30 May 2018 at 4:00 p.m. at 73 Harbour Street, Kingston, Jamaica** and at any adjournment thereof.

	FOR	AGAINST
RESOLUTION 1		
RESOLUTION 2		
RESOLUTION 3 (a)		
RESOLUTION 3 (b)		
RESOLUTION 4		
RESOLUTION 5		

Unless otherwise instructed, the proxy will vote as he/she thinks fit.

Dated this ______________________ day of ______________________ 2018

____

Signature

____

Signature

____

Signature

Place
Stamp
Here
J$100

In the case of a body corporate, this form should be executed under seal in accordance with the company's Articles.

Note: To be valid this proxy must be deposited with the Corporate Secretary of the Company at 73 HARBOUR STREET, KINGSTON, JAMAICA not less than 48 hours before the time appointed for holding the meeting. A Proxy need not be a member of the Company.

GraceKennedy

73 HARBOUR STREET | KINGSTON
876 922 3440
www.gracekennedy.com