GraceKennedy

# INTERIM REPORT

**(NINE MONTHS)**
**30 SEPTEMBER 2018**

GraceKennedy Limited

## INTERIM REPORT TO OUR STOCKHOLDERS

For the nine months ended September 30, 2018, the GraceKennedy Group achieved revenues of J$73.8 billion, representing an increase of 6.5% or J$4.5 billion over the corresponding period of 2017. Total net profit for the period was J$3.71 billion, representing a decline of 1.1% or J$39.7 million compared with 2017. Net profit attributable to the stockholders of the Company was J$3.2 billion, 3.0% or J$98.0 million lower than that of the corresponding period of 2017. As previously reported, in 2017, the Group recorded non-recurring gains in the amount of J$455.0M in relation to the acquisition of a subsidiary and the liquidation of non-operating subsidiaries. Excluding these gains in 2017, net profit for the current period would have been higher than the corresponding period by 12.6%.

The table below summarizes the impact of these non-recurring gains:

| | 9 months to 9/30/2018 $'000 | 9 months to 9/30/2017 $'000 | Change $'000 | Change % |
|---|---|---|---|---|
| Net Profit After Tax, excluding non-recurring gains | 3,711,265 | 3,295,900 | 415,365 | 12.6% |
| Non-recurring gain on liquidation of non-operating subsidiaries and acquisition of subsidiary | - | 455,018 | (455,018) | - |
| Net Profit After Tax, as reported | 3,711,265 | 3,750,918 | (39,653) | -1.06% |

Earnings per stock unit for the period was J$3.24 (Q3 2017: J$3.34). Over the nine month period, shareholders' equity increased by J$3.2 billion to J$48.4 billion, which resulted in a book value per share of J$48.77. The GraceKennedy stock price closed at J$59.49 on September 28, 2018, representing an increase of 35.7% since the start of the year.

As we approach our 100-year anniversary in 2022, the business has embarked on a transformational journey aimed at improving performance and shareholder value. Following a review of the GraceKennedy Group's organizational design, cost structure, and business processes we have undergone a restructuring exercise which led to some positions being rationalized and a number of roles expanded. A few new positions were also created during the quarter to meet the demands of the changing environment. As a result, the quarter's performance was impacted by separation costs of approximately J$150 million and related expenses of J$86 million; however we are confident that these organizational changes will effectively reposition the Group for future growth and provide us with a competitive edge.

The Food Trading segment recorded growth in both revenue and pre-tax profits when compared to the corresponding period of 2017, driven primarily by the performance of our Jamaican foods business. Year to date, our Jamaican foods business has seen growth in most of our key products, and our 'Flava with a Beat' campaign continues to garner positive reviews from the public. Brand building remains a major objective of the business as we focus on further engaging millennials while continuing to satisfy the needs of our current consumer base. Consumer Brands Limited and the Procter & Gamble portfolio continue to perform well. Improved performance was largely attributable to the contribution of existing and new products that have been well received by the market.

Our Manufacturing division in Jamaica, which consists of five factories, responded well to the increased demand for our products both locally and internationally. Two of our factories were winners at the recently held National Quality Awards. Grace Foods Processors (Canning) Division won the sectional prizes for Excellence in Organizational Focus and Process Management. Dairy Industries Jamaica Ltd., the overall winner for the National Quality Award for the Manufacturing Sector, for the second consecutive year, also received the sectional prizes for Excellence in Human Resource Focus and Customer Focus. Local manufacturing remains strategically important to the Group and we congratulate both companies on the stellar performance.

The International foods business experienced growth, however, performance was impacted by Grace Foods UK's (GFUK) decline in sales for its Nurishment brand. During the year, the company continued to invest in the strengthening of promotional activities and increased distribution for its key brands. For the quarter, GFUK was able to return Nurishment to growth, with sales recording an increase over the same quarter last year. Sales in Europe continue to grow, driven by the performance of Grace products and our Rio Pacific food service range in France.

Grace Foods Canada reported improved performance, largely attributable to the growth in sales to mainstream chains, particularly Walmart which saw double-digit growth in sales over 2017. Growth in revenue for GraceKennedy Foods (USA) LLC stemmed from sales from additional listings, for both La Fe Frozen and Grace General Groceries, in Walmart and other key retailers in the USA. Sales of our Grace Patties increased and the newly launched Grace PET coconut water and Grace Jerk Wings have been doing well in the market. La Fe Fruityurt (fruit and dairy smoothie), which was launched in September is already showing great potential in the market and will be a product of focus going forward. The introduction of new products to the market will remain a key driver for the Division as we seek to be the brand of choice in our market segment.

The GraceKennedy Financial Group (GKFG) reported growth in both revenues and pre-tax profit over the corresponding period. The Financial Group's newest initiative, GK ONE, which was launched in 2017, saw the opening of two additional locations during the quarter bringing the total number of locations to six. The GK ONE locations offer, under one roof, remittance services, bill payment, micro lending, insurance, commercial banking, and in some locations cambio services. This initiative is a part of our strategy to serve the underbanked and provide greater access to our clients through convenient locations.

The Banking and Investments segment reported a decline in revenue and pre-tax profit compared to the corresponding period in 2017. First Global Bank's (FGB) results, which were impacted by a reduction in the yield on JMD loans when compared to prior year, contributed to the decline in the segment's performance. The Bank is executing strategies aimed at growing its loans and deposits portfolio to assist in improving results. During the quarter, FGB became the first bank in Jamaica to offer agency banking with the opening of a location in Kingston. A mini-branch was also opened in May Pen, continuing the expansion of FGB's presence via its community-banking model, First Global Moneylink. The two new openings brings the total number of FGB locations to 14 island-wide.

GK Capital Management and GK Investments' strong financial performance for the first half of 2018 extended into the third quarter. Primary drivers of the increase include gains on our proprietary trading portfolio, corporate finance fees, stockbrokerage commissions and interest income. Year to date, the companies have executed well on their strategic focus of expanding the existing core business, and have maintained an attractive pipeline of investment and advisory opportunities.

In September 2018, Signia Financial Group Inc., one of GraceKennedy's associated companies in Barbados, acquired Globe Finance Inc. GraceKennedy continues to hold a 40% stake in the new entity - SigniaGlobe Financial Group Inc. The transaction led to the creation of the largest merchant bank in Barbados.

The Insurance segment reported strong growth in revenue and profit over the corresponding period of 2017. This was driven by the improved performance of GK Insurance (GKI) which experienced growth in its motor and property portfolios. Its engineering portfolio also recorded an increase as the Company continues to provide insurance services for many of the development projects across Kingston and St. Andrew. The increase in profitability was driven by revenue growth and improved investment returns.

The Money Services segment, while recording a decline in performance compared to the corresponding period, returned to growth for the quarter, reporting improved revenue and profits over prior year's third quarter. This segment continues to place focus on and invest in compliance to increase our competitive advantage, which will lead to improved performance. Always embracing innovation in the money services space, GraceKennedy Money Services (GKMS) launched GK Proxim, a quick and simple, micro-lending product as part of a diverse suite of offerings in Jamaica. The business also welcomed new strategic alliances with the announcement of a partnership with the Bank of Jamaica for coin redemption utilizing GKMS' CoinXchange machines across the island.

Following the review of the viability of GKMS' Antigua and Barbuda operations, and in keeping with GraceKennedy's long-term strategic goal to improve efficiencies and foster sustainable growth, the decision was taken to withdraw our services in September 2018. Expansion into new markets, however, remains a major part of our strategy as GKMS increased its footprint in the Bahamas, its newest market.

The construction of GraceKennedy Limited's new corporate headquarters is progressing well. The team remains on track to complete the building by the end of the year and plans are in place for employees to relocate in the first quarter of 2019. The Group remains committed to the development of Downtown Kingston and is investing over J$3 billion in this project.

As we work towards achieving our vision of becoming a Global Consumer Group, we would like to thank our shareholders, employees and customers for their support and commitment. We remain focused on delivering value through innovative solutions and look forward to continuing to build an even stronger GraceKennedy guided by the principles of Honesty, Integrity and Trust.

| | |
|---|---|
| Gordon V. Shirley, O.J. | Donald G. Wehby, C.D. |
| Chairman | Group Chief Executive Officer |

November 8, 2018

# GraceKennedy Limited

CONSOLIDATED INCOME STATEMENT
NINE MONTHS ENDED 30 SEPTEMBER 2018
(Unaudited)

| | 3 months to 9/30/2018 $'000 | 9 months to 9/30/2018 $'000 | 3 months to 9/30/2017 $'000 | 9 months to 9/30/2017 $'000 |
|---|---|---|---|---|
| Revenue from products and services | 24,467,582 | 70,796,464 | 21,838,745 | 66,079,611 |
| Interest revenue | 993,428 | 3,033,109 | 1,086,466 | 3,220,215 |
| **Revenues** (Note 2) | 25,461,010 | 73,829,573 | 22,925,211 | 69,299,826 |
| Direct and operating expenses | (24,608,240) | (71,370,780) | (21,691,954) | (66,039,581) |
| Net impairment losses on financial assets | (76,477) | (246,318) | (71,631) | (223,189) |
| | 776,293 | 2,212,475 | 1,161,626 | 3,037,056 |
| Other income (Note 5) | 816,738 | 2,268,128 | 789,298 | 1,693,179 |
| **Profit from Operations** | 1,593,031 | 4,480,603 | 1,950,924 | 4,730,235 |
| Interest income – non-financial services | 107,944 | 321,260 | 100,285 | 287,654 |
| Interest expense – non-financial services | (139,765) | (425,502) | (165,720) | (500,171) |
| Share of results of associates and joint ventures | 34,111 | 321,442 | 97,477 | 417,701 |
| **Profit before Taxation** | 1,595,321 | 4,697,803 | 1,982,966 | 4,935,419 |
| Taxation | (335,017) | (986,538) | (416,863) | (1,184,501) |
| **Net Profit for the period** | 1,260,304 | 3,711,265 | 1,566,103 | 3,750,918 |
| **Profit attributable to:** | | | | |
| **Owners of GraceKennedy Limited** | 1,063,279 | 3,216,973 | 1,425,670 | 3,314,979 |
| **Non-controlling interests** | 197,025 | 494,292 | 140,433 | 435,939 |
| | 1,260,304 | 3,711,265 | 1,566,103 | 3,750,918 |

| | | | | |
|---|---|---|---|---|
| **Earnings per Stock Unit for profit attributable to the owners of the company during the period:** | | | | |
| (expressed in $ per stock unit): | | | | |
| **Basic** | $1.07 | $3.24 | $1.44 | $3.34 |
| **Diluted** | $1.07 | $3.24 | $1.43 | $3.34 |

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
NINE MONTHS ENDED 30 SEPTEMBER 2018
(Unaudited)

| | 3 months to 9/30/2018 $'000 | 9 months to 9/30/2018 $'000 | 3 months to 9/30/2017 $'000 | 9 months to 9/30/2017 $'000 |
|---|---|---|---|---|
| Profit for the period | 1,260,304 | 3,711,265 | 1,566,103 | 3,750,918 |
| Other comprehensive income: | | | | |
| *Items that will not be reclassified to profit or loss:* | | | | |
| Gains on revaluation of land and buildings | - | - | 20,697 | 20,527 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | 27,693 | 22,622 | - | - |
| Remeasurements of post-employment benefit obligations | 1,066,759 | 1,143,407 | (1,236,059) | (914,696) |
| Share of other comprehensive income of associates and joint ventures | - | - | - | 1,050 |
| | 1,094,452 | 1,166,029 | (1,215,362) | (893,119) |
| *Items that may be subsequently reclassified to profit or loss:* | | | | |
| Foreign currency translation adjustments | 353,186 | 718,315 | 211,589 | 268,887 |
| Changes in fair value of debt instruments at fair value through other comprehensive income | (41,653) | (258,473) | - | - |
| Changes in fair value of available-for-sale financial assets | - | - | 197,703 | 325,777 |
| Share of other comprehensive income of associates and joint ventures | 32,743 | 69,262 | 8,026 | 10,627 |
| | 344,276 | 529,104 | 417,318 | 605,291 |
| **Other comprehensive income for the period, net of tax** | 1,438,728 | 1,695,133 | (798,044) | (287,828) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | 2,699,032 | 5,406,398 | 768,059 | 3,463,090 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of GraceKennedy Limited | 2,484,643 | 4,872,652 | 621,118 | 3,023,429 |
| Non-controlling interests | 214,389 | 533,746 | 146,941 | 439,661 |
| | 2,699,032 | 5,406,398 | 768,059 | 3,463,090 |

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2018
(Unaudited)

| | September 30 2018 $'000 | December 31 2017 $'000 | September 30 2017 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits | 13,066,670 | 12,084,245 | 14,047,584 |
| Investment securities | 33,311,247 | 31,853,036 | 29,443,393 |
| Pledged assets | 5,339,979 | 4,927,305 | 7,875,002 |
| Receivables | 17,996,446 | 15,848,567 | 15,791,934 |
| Inventories | 11,355,920 | 11,253,140 | 11,131,914 |
| Loans receivable | 26,439,126 | 27,548,329 | 26,579,237 |
| Taxation recoverable | 352,328 | 798,690 | 505,622 |
| Investments in associates and joint ventures | 1,981,896 | 1,798,220 | 1,961,877 |
| Investment properties | 618,000 | 618,000 | 584,000 |
| Intangible assets | 4,365,012 | 4,398,127 | 4,500,186 |
| Fixed assets | 12,907,413 | 11,715,661 | 11,320,895 |
| Deferred tax assets | 1,470,565 | 836,477 | 859,694 |
| Pension plan asset | 7,824,818 | 6,308,843 | 5,061,811 |
| **Total Assets** | 137,029,420 | 129,988,640 | 129,663,149 |
| **LIABILITIES** | | | |
| Deposits | 36,136,663 | 33,530,523 | 35,843,387 |
| Securities sold under agreements to repurchase | 4,199,184 | 3,792,720 | 6,790,497 |
| Bank and other loans | 15,560,581 | 16,515,615 | 13,130,715 |
| Payables | 22,807,253 | 22,210,899 | 20,984,356 |
| Taxation | 468,299 | 427,486 | 462,839 |
| Deferred tax liabilities | 1,513,052 | 1,369,294 | 1,185,926 |
| Other post-employment obligations | 5,757,464 | 5,129,990 | 5,032,268 |
| **Total Liabilities** | 86,442,496 | 82,976,527 | 83,429,988 |
| **EQUITY** | | | |
| **Capital & reserves attributable to the company's owners** | | | |
| Share capital | 521,158 | 540,951 | 534,604 |
| Capital and fair value reserves | 5,417,340 | 6,089,245 | 6,175,817 |
| Retained earnings | 35,166,990 | 32,120,056 | 30,836,471 |
| Banking reserves | 3,044,111 | 3,044,111 | 2,972,208 |
| Other reserves | 4,247,001 | 3,428,449 | 3,928,246 |
| | 48,396,600 | 45,222,812 | 44,447,346 |
| **Non-Controlling Interests** | 2,190,324 | 1,789,301 | 1,785,815 |
| **Total Equity** | 50,586,924 | 47,012,113 | 46,233,161 |
| **Total Equity and Liabilities** | 137,029,420 | 129,988,640 | 129,663,149 |

**Approved for issue by the Board of Directors on 8 November 2018 and signed on its behalf by:**

Gordon Shirley — Chairman

Donald Wehby — Group Chief Executive Officer

# GraceKennedy Limited

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## NINE MONTHS ENDED 30 SEPTEMBER 2018
## (Unaudited)

| | Attributable to owners of the company | | | | | | | | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Shares '000 | Share Capital $'000 | Capital and Fair Value Reserve $'000 | Retained Earnings $'000 | Banking Reserves $'000 | Other Reserves $'000 | Total $'000 | | $'000 | $'000 |
| Balance at 1 January 2017 | 992,379 | 534,249 | 5,805,054 | 29,333,152 | 2,772,209 | 3,619,261 | 42,063,925 | | 1,474,683 | 43,538,608 |
| Profit for the period | - | - | - | 3,314,979 | - | - | 3,314,979 | | 435,939 | 3,750,918 |
| Other comprehensive income for the period | - | - | 347,145 | (914,696) | - | 276,001 | (291,550) | | 3,722 | (287,828) |
| Total comprehensive income for the period | - | - | 347,145 | 2,400,283 | - | 276,001 | 3,023,429 | | 439,661 | 3,463,090 |
| Transactions with owners: | | | | | | | | | | |
| Sale of treasury shares | 75 | 3,027 | - | - | - | - | 3,027 | | - | 3,027 |
| Purchase of treasury shares | (306) | (10,840) | - | - | - | - | (10,840) | | - | (10,840) |
| Share-based payments | - | - | - | - | - | 42,720 | 42,720 | | - | 42,720 |
| Transfer of treasury shares to employees | 239 | 8,168 | 1,568 | - | - | (9,736) | - | | - | - |
| Dividends paid by subsidiaries to non-controlling interests | - | - | - | - | - | - | - | | (128,529) | (128,529) |
| Dividends paid | - | - | - | (674,915) | - | - | (674,915) | | - | (674,915) |
| Total transactions with owners | 8 | 355 | 1,568 | (674,915) | - | 32,984 | (640,008) | | (128,529) | (768,537) |
| Transfers between reserves: | | | | | | | | | | |
| To capital reserves | - | - | 22,050 | (22,050) | - | - | - | | - | - |
| To banking reserves | - | - | - | (199,999) | 199,999 | - | - | | - | - |
| Balance at 30 September 2017 | 992,387 | 534,604 | 6,175,817 | 30,836,471 | 2,972,208 | 3,928,246 | 44,447,346 | | 1,785,815 | 46,233,161 |
| | | | | | | | | | | |
| Balance at 31 December 2017 as originally presented | 992,654 | 540,951 | 6,089,245 | 32,120,056 | 3,044,111 | 3,428,449 | 45,222,812 | | 1,789,301 | 47,012,113 |
| Effect of adopting new standards | - | - | (605,449) | (301,567) | - | - | (907,016) | | (3,488) | (910,504) |
| Restated balance at 1 January 2018 | 992,654 | 540,951 | 5,483,796 | 31,818,489 | 3,044,111 | 3,428,449 | 44,315,796 | | 1,785,813 | 46,101,609 |
| Profit for the period | - | - | - | 3,216,973 | - | - | 3,216,973 | | 494,292 | 3,711,265 |
| Other comprehensive income for the period | - | - | (235,851) | 1,143,407 | - | 748,123 | 1,655,679 | | 39,454 | 1,695,133 |
| Total comprehensive income for the period | - | - | (235,851) | 4,360,380 | - | 748,123 | 4,872,652 | | 533,746 | 5,406,398 |
| Transactions with owners: | | | | | | | | | | |
| Purchase of treasury shares | (436) | (26,368) | - | - | - | - | (26,368) | | - | (26,368) |
| Share-based payments | - | - | - | - | - | 78,305 | 78,305 | | - | 78,305 |
| Transfer of treasury shares to employees | 161 | 6,575 | 1,301 | - | - | (7,876) | - | | - | - |
| Dividends paid by subsidiaries to non-controlling interests | - | - | - | - | - | - | - | | (129,235) | (129,235) |
| Dividends paid | - | - | - | (843,785) | - | - | (843,785) | | - | (843,785) |
| Total transactions with owners | (275) | (19,793) | 1,301 | (843,785) | - | 70,429 | (791,848) | | (129,235) | (921,083) |
| Transfers between reserves: | | | | | | | | | | |
| To capital reserves | - | - | 168,094 | (168,094) | - | - | - | | - | - |
| Balance at 30 September 2018 | 992,379 | 521,158 | 5,417,340 | 35,166,990 | 3,044,111 | 4,247,001 | 48,396,600 | | 2,190,324 | 50,586,924 |

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED 30 SEPTEMBER 2018
(Unaudited)

| | 9/30/2018<br>$'000 | 9/30/2017<br>$'000 |
|---|---|---|
| **SOURCES/(USES) OF CASH:** | | |
| **Operating Activities** (Note 3) | 6,089,696 | 2,332,795 |
| **Financing Activities** | | |
| Loans received | 4,283,356 | 2,707,553 |
| Loans repaid | (4,626,403) | (2,271,813) |
| Dividends paid by subsidiary to non-controlling interests | (129,235) | (128,529) |
| Purchase of treasury shares | (26,368) | (10,840) |
| Sale of treasury shares | - | 3,027 |
| Interest paid – non financial services | (414,524) | (494,945) |
| Dividends | (843,785) | (674,915) |
| | (1,756,959) | (870,462) |
| **Investing Activities** | | |
| Additions to fixed assets | (1,898,764) | (1,897,461) |
| Proceeds from disposal of fixed assets | 27,825 | 35,911 |
| Additions to investments | (3,786,687) | (4,331,395) |
| Cash outflow on acquisition of subsidiaries | - | (138,740) |
| Cash outflow on purchase of interest in associates and joint ventures | (88,000) | - |
| Proceeds from sale of investments | 2,926,323 | 6,900,463 |
| Net proceeds from disposal of associated company | - | 55,506 |
| Additions to intangibles | (232,578) | (161,964) |
| Interest received – non financial services | 337,371 | 298,480 |
| | (2,714,510) | 760,800 |
| Increase in cash and cash equivalents | 1,618,227 | 2,223,133 |
| Cash and cash equivalents at beginning of year | 9,402,295 | 10,310,801 |
| Exchange and translation gains on net foreign cash balances | 372,982 | 201,253 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 11,393,504 | 12,735,187 |

# GraceKennedy Limited

FINANCIAL INFORMATION BY OPERATING SEGMENT
NINE MONTHS ENDED 30 SEPTEMBER 2018
(Unaudited)

| 9 months to 30 September 2018 | Food Trading $'000 | Banking & Investments $'000 | Insurance $'000 | Money Services $'000 | Consolidation Adjustments $'000 | Group $'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales | 58,541,677 | 4,352,265 | 5,054,617 | 5,881,014 | - | 73,829,573 |
| Inter-segment sales | 141,600 | 27,225 | 295,931 | - | (464,756) | - |
| Total Revenue | 58,683,277 | 4,379,490 | 5,350,548 | 5,881,014 | (464,756) | 73,829,573 |
| **RESULT** | | | | | | |
| Operating results | 1,520,602 | 401,179 | 733,606 | 2,336,691 | 23,748 | 5,015,826 |
| Unallocated expense | - | - | - | - | (535,223) | (535,223) |
| Profit from operations | - | - | - | - | - | 4,480,603 |
| Finance income | 8,862 | 28,994 | 14,120 | 31,940 | 237,344 | 321,260 |
| Finance expense | (277,103) | (38,424) | - | (3,054) | (106,921) | (425,502) |
| Share of associates and joint ventures | 296,252 | 69,075 | (43,885) | - | - | 321,442 |
| Profit before Taxation | 1,548,613 | 460,824 | 703,841 | 2,365,577 | (381,052) | 4,697,803 |
| Taxation | | | | | | (986,538) |
| Net Profit for the period | | | | | | 3,711,265 |
| Attributable to: | | | | | | |
| Owners of GraceKennedy Limited | | | | | | 3,216,973 |
| Non-controlling interests | | | | | | 494,292 |
| | | | | | | 3,711,265 |

| 9 months to 30 September 2017 | Food Trading $'000 | Banking & Investments $'000 | Insurance $'000 | Money Services $'000 | Consolidation Adjustments $'000 | Group $'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales | 54,344,188 | 4,527,493 | 4,383,787 | 6,044,358 | - | 69,299,826 |
| Inter-segment sales | 140,332 | 35,367 | 355,761 | - | (531,460) | - |
| Total Revenue | 54,484,520 | 4,562,860 | 4,739,548 | 6,044,358 | (531,460) | 69,299,826 |
| **RESULT** | | | | | | |
| Operating results | 1,351,878 | 402,081 | 508,545 | 2,458,560 | 22,865 | 4,743,929 |
| Unallocated expense | - | - | - | - | (13,694) | (13,694) |
| Profit from operations | - | - | - | - | - | 4,730,235 |
| Finance income | 12,998 | 41,341 | 15,992 | 15,284 | 202,039 | 287,654 |
| Finance expense | (397,235) | (63,470) | (1,520) | (824) | (37,122) | (500,171) |
| Share of associates and joint ventures | 328,073 | 90,160 | (532) | - | - | 417,701 |
| Profit before Taxation | 1,295,714 | 470,112 | 522,485 | 2,473,020 | 174,088 | 4,935,419 |
| Taxation | | | | | | (1,184,501) |
| Net Profit for the period | | | | | | 3,750,918 |
| Attributable to: | | | | | | |
| Owners of GraceKennedy Limited | | | | | | 3,314,979 |
| Non-controlling interests | | | | | | 435,939 |
| | | | | | | 3,750,918 |

**Notes**

## 1. Accounting Policies

### (a) Basis of preparation

This condensed consolidated interim financial report for the reporting period ended 30 September 2018 has been prepared in accordance with Accounting Standard IAS 34 'Interim Financial Reporting'.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

The accounting policies followed in these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new standards, being IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. The impact of adopting the new standards are shown in Note 4.

***New standards effective in the current year***

(i) IFRS 9, 'Financial instruments',

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 [7.2.15], comparative figures have not been restated.

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss)
- those to be measured at amortised cost.

The available for sale (AFS) category under IAS 39 is no longer applicable.

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Equity instruments held for trading are measured at fair value through profit or loss (FVPL).

The Group reclassifies debt investments only when its business model for managing those assets changes.

Measurement

*Debt instruments*
Measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in the income statement using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Changes in fair value are taken through OCI. The recognition of interest income and impairment gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in the income statement using the effective interest rate method. Impairment losses are presented as a separate line item in the income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is measured at FVPL is recognised in profit or loss in the period in which it arises.

*Equity instruments*
The Group measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in the income statement.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments and certain financial guarantee contracts.

*Application of the General Model*
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. 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.

ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The 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.

*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.

The Group uses judgement when considering the following factors that affect the determination of impairment:

*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*
The Group applies 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 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 reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group uses three scenarios that are probability weighted to determine ECL.

*Expected Life*
When measuring ECL, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are 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*

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires that 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 is utilised in determining the lifetime ECLs for 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.

(ii) IFRS 15 "Revenue from contracts with customers',

IFRS 15 replaces the provisions of IAS 18 that relate to the recognition of revenue. The adoption of IFRS15 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15 [C3(b)], comparative figures have not been restated. As such, the modified retrospective transition approach has been utilised.

<u>Sales of goods and services</u>

Revenue is recognised as performance obligations are satisfied, that is, over time or at a point in time. Where a customer contract contains multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer.

Certain contracts with customers provide a right of return, free goods, volume discounts, rebates and other incentives. Accumulated experience is used to estimate and provide for customer returns and sales incentives using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability, representing amounts payable to customers, is recognised for expected returns and sales incentives. Where customer contracts entitle customers to free goods, revenue is allocated to each performance obligation, including free goods, and recognised as the performance obligations are satisfied. Contract liabilities are included in 'payables' on the statement of financial position.

<u>Sale of goods and services – customer loyalty programme</u>

The Group operates loyalty programmes where customers accumulate points for purchases made which entitle them to goods or services in the future. The consideration received from the sale of goods and services is allocated to the loyalty points and related goods and services using the residual value method. In its capacity as an agent, the Group recognises commission income, being the net of the consideration allocated to the loyalty points and the amounts payable to third parties with primary responsibility for satisfying the performance obligations in respect of awards. A financial liability is recognised in respect of amounts payable to third parties and no breakage is considered. The financial liability is included in 'payables' in the statement of financial position.

## 1. Accounting Policies (continued)

### (b) Segment reporting

The principal activities of the company, its subsidiaries, associates and joint ventures (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 Investment* – 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. Revenues

Revenues for the Group can be disaggregated as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Timing of revenue recognition from contracts with customers | | |
| Goods and services transferred at a point in time | 66,698,717 | 62,673,559 |
| Services transferred over time | 86,284 | 102,540 |
| Revenue from insurance contracts | 4,011,463 | 3,303,512 |
| Interest revenue | 3,033,109 | 3,220,215 |
| | 73,829,573 | 69,299,826 |

## 3. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

| | 9/30/2018<br>$'000 | 9/30/2017<br>$'000 |
|---|---|---|
| Net profit | 3,711,265 | 3,750,918 |
| Items not affecting cash: | | |
| Depreciation | 826,294 | 716,453 |
| Amortisation | 465,766 | 426,411 |
| Change in value of investments | (126,725) | (94) |
| Gain on disposal of fixed assets | (13,353) | (8,449) |
| Gain on disposal of investments | (3,003) | (45,699) |
| Gain on acquisition of subsidiary | - | (418,460) |
| Share-based payments | 78,305 | 42,720 |
| Exchange gain on foreign balances | (734,065) | (68,667) |
| Interest income – non financial services | (321,260) | (287,654) |
| Interest income – financial services | (3,273,712) | (3,451,386) |
| Interest expense – non financial services | 425,502 | 500,171 |
| Interest expense – financial services | 603,068 | 795,388 |
| Taxation expense | 986,538 | 1,184,501 |
| Unremitted equity income in associates and joint ventures | (71,522) | (279,004) |
| Pension plan surplus | 246,954 | 132,807 |
| Other post-employment obligations | 389,088 | 354,120 |
| | 3,189,140 | 3,344,076 |
| Changes in working capital components: | | |
| Inventories | (102,780) | 573,532 |
| Receivables | (2,223,139) | (1,801,771) |
| Loans receivable, net | 1,176,488 | (549,557) |
| Payables | 453,030 | 33,286 |
| Deposits | 1,342,713 | 4,864,271 |
| Securities sold under repurchase agreements | 156,191 | (5,597,513) |
| | 3,991,643 | 866,324 |
| Interest received – financial services | 3,360,515 | 3,523,814 |
| Interest paid – financial services | (615,382) | (821,430) |
| Translation gains | 306,872 | 174,086 |
| Taxation paid | (953,952) | (1,409,999) |
| Net cash provided by operating activities | 6,089,696 | 2,332,795 |

Reconciliation of movements of liabilities to cash flows arising from financing activities:
Amounts represent bank and other loans, excluding bank overdrafts

| | 9/30/2018<br>$'000 | 9/30/2017<br>$'000 |
|---|---|---|
| At beginning of year | 13,833,665 | 11,276,191 |
| Loans received | 4,283,356 | 2,707,553 |
| Loans repaid | (4,626,403) | (2,271,813) |
| Foreign exchange adjustments | 400,730 | 122,256 |
| Net interest movements | (3,933) | (15,869) |
| At end of period | 13,887,415 | 11,818,318 |

## 4. Effect of new standards

The new standards have been applied from 1 January 2018 and the financial statements of the Group have been restated as of that date to reflect the effect of the adoption of IFRS 9 'Financial instruments' and IFRS 15 "Revenue from contracts with customers'.

As noted in the accounting policies for the new standards, the transition provisions applied by the Group do not require comparative figures to be restated. The total impact of adoption is therefore recognised in the opening statement of financial position on 1 January 2018 as shown in Table 1 below:

**Table 1** - Effect on statement of financial position as at 1 January 2018:

| | December 31 2017 As originally presented $'000 | Effects of IFRS 9 $'000 | Effects of IFRS 15 $'000 | January 1 2018 As restated $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investment securities and pledged assets | 36,780,341 | (553,921) | - | 36,226,420 |
| Receivables | 15,848,567 | (75,260) | - | 15,773,307 |
| Loans receivable | 27,548,329 | (441,683) | - | 27,106,646 |
| Investments in associates | 1,798,220 | (108) | - | 1,798,112 |
| Deferred tax assets | 836,477 | 208,980 | - | 1,045,457 |
| Other assets unaffected by adoption of new standards | 47,176,706 | - | - | 47,176,706 |
| **Total Assets** | 129,988,640 | (861,992) | - | 129,126,648 |
| **LIABILITIES** | | | | |
| Payables | 22,210,899 | - | 143,322 | 22,354,221 |
| Deferred tax liabilities | 1,369,294 | (94,810) | - | 1,274,484 |
| Other liabilities unaffected by adoption of new standards | 59,396,334 | - | - | 59,396,334 |
| **Total Liabilities** | 82,976,527 | (94,810) | 143,322 | 83,025,039 |
| **EQUITY** | | | | |
| **Capital & reserves attributable to the company's owners** | | | | |
| Capital and fair value reserves | 6,089,245 | (605,449) | - | 5,483,796 |
| Retained earnings | 32,120,056 | (158,245) | (143,322) | 31,818,489 |
| Share capital, banking and other reserves | 7,013,511 | - | - | 7,013,511 |
| | 45,222,812 | (763,694) | (143,322) | 44,315,796 |
| **Non-Controlling Interests** | 1,789,301 | (3,488) | - | 1,785,813 |
| **Total Equity** | 47,012,113 | (767,182) | (143,322) | 46,101,609 |
| **Total Equity and Liabilities** | 129,988,640 | (861,992) | - | 129,126,648 |

The impact of these changes on the Group's equity is as follows:

**Table 2** - Effect on equity components as at 1 January 2018:

| | Capital and Fair Value Reserves $'000 | Retained Earnings $'000 | Non-Controlling Interests $'000 |
|---|---|---|---|
| Closing equity components 31 December 2017 – IAS 39/IAS 18 | 6,089,245 | 32,120,056 | 1,789,301 |
| IFRS 9 Impact | | | |
| Increase in provision for loans receivable | - | (441,683) | - |
| Increase in provision for trade receivables and other receivables | - | (72,466) | (2,794) |
| Increase in provision for debt investments at amortised cost | - | (181,883) | (380) |
| Increase in provision for debt investments at FVOCI | 90,545 | (90,545) | - |
| Increase in deferred tax assets relating to impairment provisions | - | 220,787 | - |
| Share of associates increase in impairment provision | - | (108) | - |
| Reclassify investments from AFS to FVPL | (20,194) | 20,194 | - |
| Reclassify investments from AFS to amortised cost | (371,344) | - | (314) |
| Decrease in deferred tax liabilities relating to reclassification of investments from AFS to amortised cost | 83,003 | - | - |
| Transfer from loan loss reserve | (387,459) | 387,459 | - |
| | (605,449) | (158,245) | (3,488) |
| IFRS 15 Impact | | | |
| Recognition of liability for customer loyalty programme | - | (98,289) | - |
| Recognition of contract liability for commission and fee income earned over time | - | (45,033) | - |
| | - | (143,322) | - |
| Adjustment to equity from adoption of IFRS 9 and IFRS 15 on 1 January 2018 | (605,449) | (301,567) | (3,488) |
| Opening equity components 1 January 2018 – IFRS 9 and IFRS 15 | 5,483,796 | 31,818,489 | 1,785,813 |

(i) IFRS 9 – impact of adoption

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

| Financial assets – 1 January 2018 | Note | AFS $'000 | Amortised Cost $'000 | FVOCI $'000 | FVPL $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Closing balance 31 December 2017 – IAS 39 | | 36,754,997 | - | - | 25,344 | 36,780,341 |
| Reclassify debt instruments from AFS to amortised cost | (a) | (29,369,416) | 28,815,495 | - | - | (553,921) |
| Reclassify debt instruments from AFS to FVOCI | (b) | (6,832,951) | - | 6,832,951 | - | - |
| Reclassify equity instruments from AFS to FVOCI | (c) | (426,580) | - | 426,580 | - | - |
| Reclassify equity instruments from AFS to FVPL | (d) | (126,050) | - | - | 126,050 | - |
| Opening balance 1 January 2018 – IFRS 9 | | - | 28,815,495 | 7,259,531 | 151,394 | 36,226,420 |

The Group's investments securities that were previously classified as AFS have now been reclassified to amortised cost, FVOCI or FVPL.

(a) Certain debt instruments were reclassified from AFS to amortised cost as the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest. Fair value gains or losses previously recognised in OCI have been reversed. Impairment losses were recognised directly against the asset.

(b) Certain debt instruments were reclassified from AFS to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

(c) The Group elected to present in OCI changes in the fair value of some of its equity investments previously classified as AFS because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

(d) For other equity investments, where the Group has the intention to periodically sell, these investments were reclassified from AFS to FVPL. The associated fair value gains and losses previously recognised in OCI have been reclassified to opening retained earnings.

(e) Equity instruments that are held for trading are required to be held as FVPL under IFRS 9. The classification for investments already held by the Group under this business model is unchanged.

(f) There was no impact on the amounts recognised in relation to the financial assets described in items (b) to (e) from the adoption of IFRS 9.

Impairment of financial assets

The Group has four types of financial assets that are subject to the new expected credit loss model under IFRS 9:

- Loans receivable
- Receivables
- Debt instruments carried at amortised cost
- Debt instruments carried at FVOCI

The Group revised its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in Table 2 above.

(ii) IFRS 15 – impact of adoption

The Group's adoption of IFRS 15 resulted in adjustments to the amounts recognised in the financial statements. The adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018) and are shown in Table 1 above.

The impact on the Group's retained earnings as at 1 January 2018 is shown in Table 2 above.

Below is an outline of the items affecting the opening retained earnings:

Customer loyalty programme

The Group has concluded that it acts as an agent in the customer loyalty programme. Revenue which was previously deferred is now recognised at the point of sale and the related breakage has been reversed. A liability was established for amounts payable to third parties with primary responsibility for satisfying the performance obligation in respect of the awards.

Income earned over time

The Group recognised contract liabilities in respect of contracts with customers in the insurance brokerage and banking industries, for which consideration was received or due before the Group transferred the service to the customer. This resulted in revenue deferral of $22.3 million and $22.7 million in relation to Insurance Commissions and Credit Card Fees respectively.

As a result of applying IFRS 15 in the current reporting period ended 30 September 2018, line items in the income statement were affected as follows:

| | Revenue from products and services $'000 | Direct and operating expenses $'000 | Net impact of IFRS 15 on profit or loss $'000 |
|---|---|---|---|
| Components of the income statement for the 9 months ended 30 September 2018 – IAS 18* | 71,014,543 | (71,558,909) | |
| Effects of adopting IFRS 15 | | | |
| Reclassification of return of goods, discounts and loyalty reward points from expenses to revenue | (188,129) | 188,129 | - |
| Provision for discounts available to customers and expected returns | (22,921) | - | (22,921) |
| Net impact on contract liabilities from the recognition of commission and fee income earned over time | (7,029) | - | (7,029) |
| Net impact of IFRS 15 on profit or loss | (218,079) | 188,129 | (29,950) |
| Components of the income statement for the 9 months ended 30 September 2018 – IFRS 15 | 70,796,464 | (71,370,780) | (29,950) |

* after accounting for the effects of IFRS 9

## 5. Other Income

Included in other income for the prior year is a gain on the acquisition of subsidiary of $418,460,000 and a gain on the disposal of investments of $45,699,000. For the gain on disposal of investments in the prior year, a significant portion of the amount related to non-recurring gains realised on the liquidation of certain non-operating subsidiaries.

**6. Contingent Liability**

By letter dated 17 May 2018, the Guyana Revenue Authority (GRA) indicated that GraceKennedy Remittance Services Guyana ('GKRS') was "incorrectly" classified as a non-commercial company rather than a commercial company. Based on this, the GRA asserted that GKRS had wrongly paid corporation taxes at the lower non-commercial company rate. GKRS' tax liability was assessed by the GRA to be J$241,623,000, excluding penalties and interest if applicable. GKRS lodged objections to the GRA's assessment on the basis that the GRA wrongly assessed GKRS as a commercial company and that GKRS had filed (and the GRA had accepted), returns for a period of over 20 years as a non-commercial company. By letter dated 26 September 2018, received on 4 October 2018, the GRA indicated that it would maintain its assessments despite the objection.

GKRS instructed counsel to file an appeal to a Judge in Chambers in the matter. The appeal was filed on 26 October 2018 and a court date of 28 November 2018 has been set for the hearing of the appeal.

GKRS is confident that it has a strong basis of appeal having regard to counsel's advice, that the requirement to pay taxes as a commercial company, as set out in the Corporation Tax Act of Guyana, does not apply because the company does not satisfy the criterion for this classification. Based on this, no amounts have been provided for in these financial statements in respect of this matter.