

EAST AFRICAN BREWERIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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CORPORATE INFORMATION

DIRECTORS

Mr. C Muchene	Group Chairman
Mr. A Cowan*	Group Managing Director
Dr. G Geiszl**	Group Finance and Strategy Director
Mr. J O'Keeffe***	
Mr. P Gallagher***	Resigned on 31 March 2019
Mrs. J Karuku	
Ms. C Musyoka	
Dr. M Oduor-Otieno	
Mr. J Katto****	
Dr. A Shonubi ****	Retired on 26 July 2018
Mr. J Mugerwa****	Appointed on 27 July 2018
Mr. J Ulanga*****	Appointed on 1 June 2019

* British

**Hungarian

*** Irish

**** Ugandan

*****Tanzanian

SECRETARY

Ms. Joyce Munene (CPS No. 1954)
Certified Public Secretary of Kenya
Corporate Centre
Ruaraka
P.O. Box 30161
00100 Nairobi, GPO

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants of Kenya
PwC Tower
Waiyaki way / Chiromo Road
P.O. Box 43963
00100 Nairobi, GPO

ADVOCATES

Bowmans
5th Floor, ICEA Lion Centre, West Wing
Riverside Park, Chiromo Road Nairobi
P.O. Box 10643
00100 Nairobi, GPO

CORPORATE INFORMATION (continued)

SHARE REGISTRARS

Custody & Registrar Services Limited
6th Floor, Bruce House
Standard Street
P.O. Box 8484
00100 Nairobi, GPO

PRINCIPAL BANKERS

Standard Chartered Bank Kenya Limited
48 Westlands Road, Nairobi, Kenya
P.O. Box 30003
00100 Nairobi, GPO

CfC Stanbic Bank Limited
CfC Stanbic Center
Chiromo Road, Westlands
P.O. Box 30550
00100 Nairobi, GPO

Citibank NA
Citibank House
Upper Hill Road
P.O. Box 30711
00100 Nairobi, GPO

Barclays Bank of Kenya Limited
Barclays Westend Building
Off Waiyaki Way
P.O. Box 30120
00100 Nairobi, GPO

REGISTERED OFFICE

East African Breweries Limited
Corporate Centre
Ruaraka
P.O. Box 30161
00100 Nairobi, GPO

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 30 June 2019, which disclose the state of affairs of East African Breweries Limited ("EABL" or the "Company") together with its subsidiaries (jointly the "Group"). The annual report and financial statements have been prepared in accordance with the requirements of the Kenyan Companies Act 2015.

1. Principal activities

The Company and the Group are involved in marketing, production and distribution of a collection of brands that range from beer, spirits to adult non-alcoholic drinks.

2. Results

The Group and Company results for the year are set out on page 20 and page 22 respectively.

3. Business review

i) Business performance

EABL achieved a solid performance during the year. There has been a continued stable business environment across the East African region which supported strong performance across Senator, mainstream spirits and bottled beer in Kenya, our beer business, particularly the Serengeti family in Tanzania as well as both spirits and beer in Uganda. As a result, the Group delivered Kshs 83 billion in revenue, which represented 12% growth from last year.

Selling and distribution expenses grew by 12% to support volume growth and accelerating momentum in innovation during the year in line with our drive to increasingly invest behind our brands for sustainable revenue growth.

Administrative expenses increased by 10% mainly due to costs incurred to support the newly commissioned Kisumu Brewery.

The business delivered a gross profit margin of 46% and operating margin of 22%, an improvement from prior year, which is in line with our margin expansion initiatives during the year. Profit for the year increased by 59% from growth in revenue and continued cost management initiatives.

ii) Operating environment

EABL's overall operating environment improved significantly, especially in Kenya. The political environment during the financial year has been calm and created a stable and conducive environment for businesses to operate without interruptions. Kenya's economic expansion has been boosted by a stable macroeconomic environment, low oil prices, a rebound in tourism, strong diaspora remittance inflows, and government-led infrastructure development initiatives. The government continues to implement new controls to curb illicit and parallel trade; most recently moving to 100% inspection of imported goods and raids on illicit trade across the country.

The macro economic environment in Uganda has remained stable despite the downward revision of the economic growth. This was mainly driven by declining commodity prices including food crops despite an increase in fuel and utilities. A diplomatic feud between Rwanda and Uganda stopped most cross-border movements between the two countries, a situation that has affected exports into Rwanda.

The economic growth in Tanzania has been strong, supported by a resurgent mining sector benefiting from the increased exports, more favorable conditions and continued infrastructure spending lifting investment activity. However, economic policy and regulatory uncertainties pose difficulties on the business environment in the country.

DIRECTORS' REPORT (Continued)

3. Business review (continued)

ii) Operating environment (continued)

Stability and predictability in the regulatory and tax environment across the region was key to enable EABL to deliver a strong year and also contribute more significantly to the governments in taxes paid.

iii) Policy and regulation

In Kenya there have been a number of key regulatory developments as set out below:

(a) The Employment Act (Amendment) Bill, 2019

The following are the key proposed amendments to the Employment Act 2007:

1. Foreign employees

An employer is required to employ foreign nationals whose residency status in the country has been regularised in accordance with the Kenya Citizenship and Immigration Act or any other relevant law.

2. Data Protection

The Bill provides for the protection of employee personal data. It requires an employer to process personal data lawfully and fairly and for the purpose for which it was collected. It also requires employers to incorporate technical or organizational measures to ensure security of the collected personal data.

3. Constructive dismissal

The Bill seeks to introduce provisions on constructive dismissal. Previously, this was governed by common law and case law. Dismissal shall be deemed constructive where an employee is compelled to terminate the contract of service in circumstance where the employer conducts themselves in a manner calculated to make working conditions of an employee intolerable and disregards essential terms of service which seriously damages the relationship of trust and confidence between the employer and the employee.

4. Other amendments

The other notable amendments to the Act include: death of employer, night work and medical examination, overtime, flexible working time, work leave in cases of still birth, surrogacy leave, adoption leave, education leave, compassionate leave, clarity of definitions including contract for service, piece rate work, part time employee, overtime, term contract among others.

(b) Kenya Food and Drugs Authority Bill, 2019

This Bill seeks to consolidate provisions on medicines, food and related health products which are currently provided for under fragmented legislation. There is an established Authority within National Government its functions being a critical and integral part of Health Policy, as set out in the Fourth Schedule to the Constitution.

4. Business review (continued)

iii) Policy and regulation (continued)

(c) Tax legislation

The following tax amendments have been effected or proposed via various legislative instruments:

Tax amendments enforced via a Legal Notice effective 12th July 2019:

- i. **Spirits:** The rate of excise increased from Kshs 210.40 to Kshs 221.24 per litre. There is an anticipated further increase in the rate excise duty on spirits and wines and cigarettes as the Cabinet Secretary responsible for Finance proposed a 15% increase to be effected in October 2019. This translates into a rate of Kshs 242 per litre.
- ii. **Beer:** Inflationary adjustment of 5.15% on excise duty on beer and other excisable products. Specifically, beer will attract excise duty at Kshs 110.62 per litre (up from Kshs 105.20 per litre).

Changes proposed via the Finance Bill, 2019

- i. **Excise Duty**
Betting: An introduction of 10% excise duty on amount staked in betting activities.
Vehicles: Increase in excise duty to 25% for motor vehicles over 1500 cc and 35% for motor vehicles above 3000 cc and excise duty reduction from 20% to 10% for fully-powered electric motor vehicles.
- ii. **Withholding tax** scope widened to include security, transportation (excluding air transport), cleaning and fumigation, sales and promotion and catering services (offered outside hotels).
- iii. **Capital Gains Tax** increased from 5% to 12.5%. There will be an exemption for organisations that transfer property as part of restructuring.
- iv. **Withholding VAT (WHVAT)** reduced from 6% to 2%.
- v. **Miscellaneous Taxes :**
Railway Development Levy increased from 1.5% to 2% for finished goods.
Import Declaration Levy reduced from 2% to 1.5% for raw materials and increased from 2% to 3.5% for finished goods.

iv) Sustainability

As the Company celebrates its 100 years of operation in 2022, the Board and Management teams are fully alive to the pressing need for EABL to remain a sustainable business for the next century and beyond. Our expansive value chain continues to expand across East Africa, in line with the objectives of our *Growing Value Together*, an elaborate programme that embraces our full range of stakeholders walking our sustainability journey: farmers, aggregators, communities, suppliers, customers and employees. Our desire is to continue accelerating the execution of our three-pronged sustainability agenda, encompassing *Alcohol in Society*, *Building Thriving Communities* and *Reducing Environmental Impact* across our business.

To demonstrate leadership in Alcohol in Society, we are determined to truly create shared value, ensuring that every decision we make, operation we run, programme and initiative execute must work towards a positive role for alcohol in society. We will continue to be leaders in this field, by working with others in our industry, through programmes that address harmful drinking, and with training and education.

To build thriving communities, we have engaged the gear in the last year, empowering communities and increasing access to opportunity through empowering women, enabling entrepreneurship, employability and skills, as well as access to clean water, sanitation and hygiene for all.

DIRECTORS' REPORT (Continued)

3. Business review (continued)

iv) Sustainability (continued)

We have also increased pace towards reducing our environmental impact by using natural resources responsibly. We are working to reduce our impact in the areas of water, carbon, packaging, and waste in our operations and throughout our supply chain.

Above all, and in line with our ambition to be the best performing, most trusted and respected business in the region, we aligned our strategy to make sustainable development a factor in every business decision and operation fulfills our purpose of celebrating life every day, everywhere, by making a real difference to people's lives.

It is also central to our performance ambition – by growing our brands' relationships with consumers and others, strengthening our supply chain, reducing our costs and mitigating risk. Driving performance, as well as earning trust and respect, makes us more competitive: not only presently, but in the future, which we hope will be at least as long, and as successful, as our past.

v) Employees

Driving business performance and employees immersion sits at the core of our mission: Culture of unconditionality through town halls, skip level sessions, cross functional teams, employees communication, creative rewards, leadership capability programmes (LEAP) and leveraging high employee engagement has impacted performance at pace.

During the year, our investment in people and strong employer brand enabled us earn recognition across East Africa as follows:

- Serengeti Breweries Limited: Employer of the Year Award for investing in technology.
- Kenya Breweries Limited: Employer of the Year Award for Learning and Development.
- East African Breweries Limited ranked position 2 top 25 employers in Kenya 2019 by Shortlist Professionals.

vi) Internal policy framework

EABL endeavors to ensure that it has best in class policies in the region. EABL wishes to highlight in particular the diversity, procurement and ICT policies that are in place and are constantly updated in order to incorporate current trends in the region and the fast pace of advancement in technology.

vii) Related party transactions

The Directors confirm that they have disclosed the Group and Company related party transactions in these financial statements and there were no insider dealings for the year ended 30 June 2019.

4. Dividends

The Directors recommend a final dividend of Kshs 6.0 (2018: Kshs 5.5) per share amounting to a total of Kshs 4,744,646,000 (2018: Kshs 4,349,259,000) to be paid on or before 11 October 2019 to those members on the register at the close of business on 23 August 2019. During the year an interim dividend of Kshs 2.5 (2018: Kshs 2.0) per share, amounting to a total of Kshs 1,976,935,000 (2018: Kshs 1,581,549,000) was paid.

The total dividend for the year is therefore Kshs 8.5 per share (2018: Kshs 7.5 per share), amounting to a total of Kshs 6,721,581,000 (2018: Kshs 5,930,807,000).

DIRECTORS' REPORT (Continued)

5. Directors

The Directors who held office during the year and to the date of this report are set out on page 1.

6. Employees

The Directors are pleased once again to record their appreciation to all the employees of the Group for their untiring effort, energy and dedication during the year.

7. Disclosures to Auditors

The Directors confirm that with respect to each Director at the time of approval of this report:

- a) there was, as far as each Director is aware, no relevant audit information of which the Company's auditor is unaware; and
- b) each Director had taken all steps that ought to have been taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8. Terms of appointment of Auditor

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

9. Approval of financial statements

The financial statements were approved by the Board of Directors on 25 July 2019.

By order of the Board



Joyce Munene (Ms)
Company Secretary

Date: 25 July 2019

DIRECTORS' REMUNERATION REPORT

East African Breweries Limited ("EABL" or "Company") ambition is to be the best performing, most trusted and respected consumer products company in Africa. Achieving this will require significant leadership focus and investment behind an ambitious growth strategy. Reward is a key enabler to this strategy – impacting our ability to not only attract, but to motivate and retain talent with the capability to deliver EABL's strategy and performance goals.

EABL is pleased to present the Directors' remuneration report for the year ended 30 June 2019. This report is compiled pursuant to EABL's reward policy, the Capital Markets Authority Code of Corporate Governance, and the Kenyan Companies Act, 2015 Regulations on Directors' remuneration. A key provision of the Company's principles is that reward directly support the business strategy with clear and measurable linkage to business performance.

The EABL reward system seeks to recognise the contribution its employees make towards the success of the Company, while reflecting not only the value of the roles they perform, but also the level to which they perform them. Our approach to recognising our Directors' contribution to the business is based on our reward principles, which are summarised as below:

- **Competitiveness:** Our total reward levels are reflective of the competitive market, and compare favourably with our peers for such skills. Our reward structure is reviewed regularly and is subject to external benchmarking to ensure that we continually offer our Directors a competitive total reward package.
- **Transparency:** Our reward programme is simple and globally aligned in terms of core offerings and mechanism. We strive to explain to all stakeholders the component value of the total reward package and the criteria which may affect it.
- **Performance based:** Our reward programmes are linked to our performance ambition. They are simple and clearly communicated, recognising individual and business performance.

As at 30 June 2019, EABL's Board of Directors consisted of:

- 3 Executive Directors: Mr. Andrew Cowan, Dr. György Geiszl and Mrs. Jane Karuku.
- 1 Non-Executive Director: Mr. John O'Keeffe. Mr. Paul Gallagher was a Non-Executive Director during the year until 31 March 2019 when he resigned.
- 6 Independent Non-Executive Directors ("INEDs"): Mr. Charles Muchene, Mr. Japheth Katto, Dr. Martin Oduor-Otieno, Ms. Carol Musyoka, Mr Jimmy Mugerwa and Mr. John Ulanga. Dr Alan Shonubi was an INED but retired from the board on 26 July 2018. Mr. John Ulanga was appointed to the board on 1 June 2019.

For the financial year ended 30 June 2019, the consolidated Directors' remuneration was Kshs 314,343,000 (2018: Kshs 266,852,000).

In accordance with Section 6 of the Companies (General) (Amendment) Regulations of 2017, the Directors Remuneration Report for the year ended 30 June 2018 was presented to shareholders for approval at the Annual General Meeting (AGM) held on 19th September 2018. 96.38% voted in favour of the report, 0.13% voted against the report while 3.49% of the votes were withheld or spoilt.

The next section outlines the details of these remuneration.

1. Executive Directors

The reward of the Executive Directors is guided by the principles set out above. It comprises guaranteed elements (base pay and fixed allowances), benefits and variable elements (bonus pay and stock options or awards).

The elements of the Executive Directors' remuneration are as detailed out on the table below:

DIRECTORS' REMUNERATION REPORT (continued)

Reward Element	Description
Base pay	Purpose and link to Group Strategy The base pay supports the attraction and retention of the best global talent with the capability to deliver EABL's strategy and performance goals.
	Operation - It is paid monthly (12 equal instalments) during the year, and is pensionable. - The base pay is reviewed annually in October, to reflect changes in market pay levels and individual performance. - The Board Nominations and Remuneration Committee ("BNRC") approves the budgets that form the basis for the annual base salary increments on an annual basis. Performance measure – It is based on individual's level of responsibility.
Fixed allowances and benefits	Purpose and link to Group Strategy These allowances and benefits provide market competitive and cost effective benefits. Operation - Fixed allowances are provided in line with the Company's pay structure and may include a car allowance (unless in cases where an actual car is provided). Further, Executive Directors on international assignee contracts receive mobility related allowances to compensate for cost of living and location differentials. - Market competitive benefits that are in line with the Company's pay structure include pension, medical, accident and life insurance and club membership. - International assignees receive additional benefits that include: home leave travel, housing support, dependants' education support and tax support through tax equalisation. Performance measure – It is based on individual's level of responsibility.
Bonus	Purpose and link to Group Strategy This incentivises delivery of EABL's annual strategic financial and non-financial targets. It provides focus on the key financial metrics and the individual's contribution to the Company's performance. Operation - Bonus pay is discretionary and is paid out in line with the Company's bonus scheme referred to as the Annual Incentive Plan ("AIP"). AIP seeks to reward an employee's contribution as part of a 'winning team'. - Bonuses are awarded during the EABL Annual Review Cycle and paid out in cash in October of every year. - The elements used to calculate the bonus are: - Annual base salary - Bonus is usually expressed in terms of one's annual base salary. - The business multiple – This is a reflection of the performance of the business against its annual operating plan. It could be between 0.0 and 3.0. - The bonus factor - is the proposed recommendation by the Line Manager. It is a reflection of one's individual performance in the performance year and is between 0% - 200%. Performance measure – This is based on individual and Company performance.

DIRECTORS' REMUNERATION REPORT (continued)

Reward Element	Description
Shares / stock options	Purpose and link to Group Strategy These provide focus on delivering superior long term consistent performance in line with EABL's business strategy and to create alignment with the delivery of value and returns to shareholders. Operation The Executive Directors participate in the below plans: - Diageo Executive Long Term Investment Plan (DELTIP) – This is a plan whereby awards/options are discretionary and normally granted in September every year. They create an opportunity for executives of the business to act like owners linking reward to Diageo plc's share price performance. Under the Plan, the shares or share options granted have a vesting period of three years after which an employee can exercise the award/option within the third year to the tenth year. - The Performance Share Plan (PSP) – This is a long-term incentive that offers the executive the opportunity to receive conditional awards of shares in Diageo plc, subject to the achievement of performance conditions: organic Profit Before Exceptional Items and Tax (PBET), organic Net Sales Value (NSV) growth and cumulative cashflow. The vesting period for PSP is three years but is also subject to meeting the relevant performance conditions. The number of shares a person receives depends on the extent to which the performance condition is met. - Diageo Performance Incentive (DPI) – This was a single one time incentive award that offered an executive the opportunity to receive shares in Diageo, in order to lead and deliver productivity and growth across the business. The incentive award commenced on 1 July 2016 and the vesting period is three years. The number of shares awarded depended on both the grade and salary. The performance conditions are pegged on Diageo productivity savings and NSV growth. Additionally, the overall performance was also pegged on achieving a Line Manager net promoter score of at least +20 for two of the three years in the period to vesting. Performance measure for the right to receive shares – The awarding and vesting of the awards are linked to a range of measures which may include but are not limited to a growth measure (e.g. net sales), a measure of efficiency (e.g. return on invested capital) and the business' relative performance in relation to peers (e.g. total shareholder value).
Company product	All Directors are eligible to receive a discretionary choice from a select product range to enable them experience the Company brands first hand. The value of the products is Kshs 3,000 per month. There is no cash alternative to product allowance and it is not a contractual benefit.
Notice period	The notice period is defined in the individual contracts. Local contracts provide for 3 months notice period. Notice period for international assignees is defined by their home contracts terms of service.
Termination payments	These are defined by Company policy, which provides for severance payment, payment in lieu of notice and payment of any accrued fixed pay and leave.

DIRECTORS' REMUNERATION REPORT (continued)

Reward Element	Description
Compensation for past Directors	This report includes payments made in the relevant financial year to any person who was not a Director of the Company at the time the payment was made but had previously been a Director of the Company.

This Policy will apply to Executive Directors during the financial year 2020.

Remuneration – Audited

	Salary Kshs '000	Bonuses Kshs '000	Allowances and benefits Kshs '000	Total Kshs '000
Year ended 30 June 2019				
Andrew Cowan	35,822	24,580	55,340	115,742
Jane Karuku	29,086	10,650	6,720	46,456
György Geiszl	19,692	11,087	37,280	68,059
Total	84,600	46,317	99,340	230,257

Year ended 30 June 2018				
Andrew Cowan	34,973	10,019	50,061	95,053
Jane Karuku	27,251	5,057	6,542	38,850
György Geiszl	19,650	5,984	30,101	55,735
Total	81,874	21,060	86,704	189,638

(*) The Benefits constitute housing benefit together with the underlying taxes, car benefit and telephony benefit. The increase in benefits for the year ended 30 June 2019 is largely driven by the increase in salary and bonuses which forms a base for the taxation on housing benefit.

Stock options

The movement in the Executive Directors' share options awards is as follows:

	At start of year	Shares/ options awarded	Shares/ options exercised	Leaver	Total (vested and unvested)
Year ended 30 June 2019					
Andrew Cowan	76,111	12,745	(48,479)	-	40,377
Jane Karuku	28,572	15,596	(3,485)	-	40,683
György Geiszl	10,965	3,831	(3,255)	-	11,541
Total	115,648	32,172	(55,219)	-	92,601
Year ended 30 June 2018					
Andrew Cowan	65,287	12,797	(1,973)	-	76,111
Jane Karuku	20,709	7,863	-	-	28,572
György Geiszl	11,492	2,929	(3,456)	-	10,965
Charles Ireland	79,790	-	-	(79,790)	-
Total	177,278	23,589	(5,429)	(79,790)	115,648

The charge through profit or loss relating to the share options and awards was Kshs 50,571,000 (2018: Kshs 39,459,000).

DIRECTORS' REMUNERATION REPORT (continued)

2. Non-Executive Directors

The Non-Executive Director, Mr. John O'Keeffe is a full time employee of the majority shareholder; Diageo plc. Mr. Paul Gallagher, who resigned from the board on 31 March 2019 was also a full time employee of the majority shareholder; Diageo plc. As a result of being full time employees of Diageo plc, these Non-Executive Directors did not earn any fees for sitting on the board of EABL.

3. Independent Non-Executive Directors (INEDS)

Independent Non-Executive Directors' remuneration policy and framework

EABL offers a selection of financial and non-financial rewards and benefits. The precise nature of these is subject to ongoing review and may be amended from time to time, taking into account market practice.

The list of the reward components is as follows:

(i) Retainer fees

This is competitive taking into account market rates of pay. Fees are reviewed every two years after a survey of prevailing market rates. Any increases will be determined in accordance with the ability of the business to fund the increase. Retainer fees are paid on a monthly basis.

(ii) Attendance fees / sitting allowance

Independent Non-Executive Directors are paid an attendance fee in recognition of the time spent attending EABL Board or Committee meetings as well as meetings for the Subsidiary Companies. These are also benchmarked on market rates and trends.

(iii) Insurance cover

EABL provides professional indemnity insurance for all the Independent Non-Executive Directors in line with best practice in the market.

(iv) Product allowance

Independent Non-Executive Directors' are eligible to receive a discretionary choice from a select product range to enable them experience the Group's brands first hand. The value of the products is Kshs 3,000 per month. There is no cash alternative to product allowance and it is not a contractual benefit.

(v) Travel and accommodation when on Company business

EABL provides for travel and accommodation costs in line with its Travel and Entertainment policy. Independent Non-Executive Directors travel on business class when going for Company related meetings.

(vi) Medical cover – Effective financial year 2020. the Company will provide Independent Non executive Directors with medical cover, both inpatient and outpatient, within the limits provided for other employees.

The Company values continued dialogue with EABL's shareholders and engages directly with them at the Annual General Meeting when making any revisions to the INEDs remuneration package.

DIRECTORS' REMUNERATION REPORT (continued)

Independent non-executive Directors' remuneration policy and framework (continued)

INEDS Remuneration - Audited

For the financial year ended 30 June 2019, the consolidated INEDs fees was Kshs 33,520,000 compared to Kshs 37,755,000 paid during the financial year ended 30 June 2018.

	Retainer	Sitting allowances	Total
	Kshs '000	Kshs '000	Kshs '000
Year ended 30 June 2019			
Charles Muchene	8,000	1,235	9,235
Carol Musyoka	5,250	1,305	6,555
Martin Oduor-Otieno	5,250	1,485	6,735
Japheth Katto	3,853	1,241	5,094
Alan Shonubi	963	406	1,369
Jimmy Mugerwa	3,586	942	4,528
John Ulanga	-	-	-
Total	26,902	6,614	33,516
Year ended 30 June 2018			
Charles Muchene	8,000	1,589	9,589
Carol Musyoka	5,250	1,778	7,028
Martin Oduor-Otieno	5,250	2,008	7,258
Japheth Katto	3,500	1,416	4,916
Alan Shonubi	3,500	1,259	4,759
Nehemiah Mchechu	3,500	705	4,205
Total	29,000	8,755	37,755

By order of the Board



Joyce Munene (Ms)
Company Secretary
Date: 25 July 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Company at the end of the financial year and its financial performance for the year then ended. The Directors are responsible for ensuring that the Group and Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Company's ability to continue as a going concern, the Directors have disclosed in note 2(a)(ii) of the financial statements matters relating to the use of going concern basis of preparation of the financial statements.

The Group's statement of financial position indicates a net current liabilities position of Kshs 4,057,000,000 (2018: Kshs 4,257,806,000). As Directors, we are satisfied that this is transient in nature as the Group continues to align its capital expenditure with long term funding. The Capital Markets Authority has exempted the Group from maintaining a current ratio of 1 until 2020. The Group had undrawn funding available as at 30 June 2019 of Kshs 11.7 billion (2018: Kshs 13.4 billion) as disclosed in Note 33.

To further satisfy ourselves as to the going concern of the Group, we have undertaken a detailed funding assessment including a debt maturity analysis. Based on the outcome of this exercise we have concluded that the Group will generate/access sufficient funds to meet all its obligations over the next twelve month period from the date of this report. We have also reviewed all our borrowing financial covenants and confirm to be compliant.

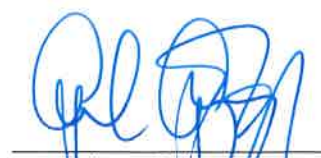
As explained in Note 2(a)(ii) we find it appropriate to continue to prepare these financial statements on a going concern basis.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of Directors on 25 July 2019 and signed on its behalf by:



Mr. Andrew Cowan
Director



Dr. György Geiszl
Director



Independent auditor's report to the shareholders of East African Breweries Limited

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of East African Breweries Limited (the Company) and its subsidiaries (together, the Group) set out on pages 20 to 93, which comprise the consolidated statement of financial position at 30 June 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 30 June 2019, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of East African Breweries Limited give a true and fair view of the financial position of the Group and the Company at 30 June 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

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 financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

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Independent auditor's report to the shareholders of East African Breweries Limited (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangible assets (goodwill and brands) and investments in subsidiaries As disclosed in note 22 of the financial statements, the group has goodwill of Kshs 2.7 billion and indefinite-lived brand intangible assets of Kshs 463 million as at 30 June 2019 arising from business acquisitions in prior years. The carrying amount of investments in subsidiaries in the Company's statement of financial position at 30 June 2019 was Kshs 39.9 billion. As explained in the accounting policies Note 2 (h) and 2 (t) in the financial statements, management perform an impairment assessment of intangible assets on an annual basis. The impairment assessment is based on a comparison of the carrying amount of the intangible assets and the investments in subsidiaries in the statement of financial position to their respective recoverable amounts. The determination of the recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires management judgement in both identifying and then valuing the relevant cash generating units (CGUs). Recoverable amounts are based on management's estimate of variables and market conditions such as future selling prices and sales volume growth rates, the timing of future operating expenditure, and the most appropriate discount and long term growth rates. Variations in management estimates and judgements could result in material differences in the outcomes of the assessment.	We evaluated and challenged the composition of management's cash flow forecasts and the underlying assumptions based on the historical performance of the CGUs, industry-specific reports and the macro economic outlook. Our audit procedures included challenging management on the appropriateness of the impairment model and the reasonableness of the assumptions by benchmarking the key market-related assumptions in the models, such as discount rates, long term growth rates and foreign exchange rates, against external data, and assessing the reliability of cash flow forecasts through a review of actual past performance and comparison to previous forecasts. We tested the mathematical accuracy and performed sensitivity analyses of the models. We assessed the adequacy and appropriateness of the related disclosures in Notes 22 and 24 of the financial statements.

Independent auditor's report to the shareholders of East African Breweries Limited (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Provisions and contingent liabilities As explained in Note 29 the financial statements, the group entities have unresolved assessments and claims by tax authorities on a range of tax compliance matters arising in the normal course of business. The directors use the best available information to make significant judgements at the year-end as to the likely outcome of these matters for purposes of calculating any potential liabilities and/or determining the level of disclosures in the financial statements. The future outcome of these claims could be materially different from the directors' judgements.	Our audit focused on assessing the reasonableness of the directors' judgements in relation to unresolved tax assessments and claims. In particular, our procedures included the following: • where relevant, reading external legal advice obtained by management; • discussing open matters and developments with the Group legal counsel and management; • challenging management's analysis which sets out the basis of the exposures; and • obtaining direct confirmation from the Group's external legal counsel of the estimated financial exposure. As explained in Note 29 in the financial statements, since the settlement of these matters is subject to future negotiations and legal proceedings, the calculations of any provisions are subject to inherent uncertainty. We assessed the reasonableness of any provisions recorded in the financial statements in the context of the uncertainty. We evaluated whether the disclosures in the financial statements appropriately reflect any significant uncertainties that exist around the unresolved tax matters.

Other information

The other information comprises the Directors' report, the Directors' remuneration report and the Statement of Directors' responsibilities, which we obtained prior to the date of this auditor's report, and the rest of the other information in the 2019 Integrated Report and Financial Statements which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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



Independent auditor's report to the shareholders of East African Breweries Limited (continued)

Other information (continued)

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the 2019 Integrated Report and Financial Statements, which was made available to us after the date of our report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Groups' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent auditor's report to the shareholders of East African Breweries Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the directors' 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'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 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Group's 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 the directors 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 the directors 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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's 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.

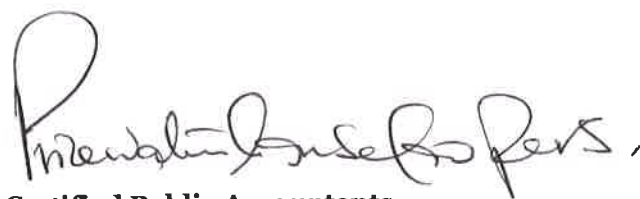
Report on other matters as prescribed by the Kenyan Companies Act, 2015

Report of the Directors

In our opinion, the information given in the directors' report on pages 3 - 7 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 8 to 13 has been properly prepared in accordance with the Kenyan Companies Act, 2015.



**Certified Public Accountants
Nairobi**

**FCPA Michael Mugasa, Practising certificate No. 1478
Signing partner responsible for the independent audit**

25th July 2019

Consolidated statement of profit or loss

		Year ended 30 June	
	Note	2019	2018
		Kshs '000	Kshs '000
Revenue from contracts with customers	6(a)	82,543,241	73,456,832
Cost of sales	7(a)	(44,426,104)	(41,052,409)
Gross profit		38,117,137	32,404,423
Selling and distribution costs		(7,209,400)	(6,423,767)
Administrative expenses	8(a)	(9,398,222)	(8,534,844)
Other (expenses)/income, net	9(a)	(322,889)	(2,344,884)
Finance income	12(a)	120,601	81,949
Finance costs	12(a)	(3,492,577)	(3,441,067)
Profit before income tax	10	17,814,650	11,741,810
Income tax expense	13(a)	(6,299,520)	(4,486,255)
Profit for the year		11,515,130	7,255,555
Profit attributable to:			
Equity holders of the Company		8,877,789	5,683,764
Non-controlling interests	18(a)	2,637,341	1,571,791
Profit for the year		11,515,130	7,255,555
Earnings per share			
-basic and diluted (Kshs per share)	15	11.23	7.19

Consolidated statement of comprehensive income

	Year ended 30 June	
	2019	2018
	Kshs '000	Kshs '000
Profit for the year	11,515,130	7,255,555
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss:		
Exchange differences from translation of net foreign operations	610,943	(865,067)
Total comprehensive income for the year	12,126,073	6,390,488
Total comprehensive income for the year attributable to:		
Equity holders of the Company	9,453,569	4,873,315
Non-controlling interests	2,672,504	1,517,173
Total comprehensive income for the year	12,126,073	6,390,488

Company statement of profit or loss and other comprehensive income

		Year ended 30 June	
	Note	2019 Kshs '000	2018 Kshs '000
Revenue from contracts with customers	6(b)	11,614,838	15,804,434
Cost of sales	7(b)	(1,802,474)	(2,662,550)
Gross profit		9,812,364	13,141,884
Administrative expenses	8(b)	(1,668,781)	(1,656,329)
Other income/ (expenses), net	9(b)	1,897,238	(6,728,019)
Finance income	12(b)	2,070,883	1,584,653
Finance costs	12(b)	(4,702,021)	(3,881,863)
Profit before income tax	10	7,409,683	2,460,326
Income tax expense	13(b)	(443,884)	(400,973)
Profit for the year		6,965,799	2,059,353
Profit for the year		6,965,799	2,059,353
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		6,965,799	2,059,353

Consolidated statement of financial position

	Note	At 30 June 2019 Kshs '000	2018 Kshs '000
Equity attributable to owners of the Company			
Share capital	16	1,581,547	1,581,547
Share premium	16	1,691,151	1,691,151
Treasury shares	17(a)	(608,997)	(507,275)
Share based payment reserve	17(a)	26,184	14,584
Translation reserve	17(c)	(2,805,753)	(3,381,533)
Proposed dividends		4,744,646	4,349,259
Retained earnings		4,015,601	1,933,212
		8,644,379	5,680,945
Non-controlling interests	18	7,510,372	5,971,091
Total equity		16,154,751	11,652,036
Non-current liabilities			
Deferred income tax	19(a)	6,136,317	3,264,233
Borrowings	33(a)	31,115,178	30,546,789
		37,251,495	33,811,022
Total equity and non-current liabilities		53,406,246	45,463,058
Non-current assets			
Property and equipment	20(a)	53,037,811	45,363,844
Intangible assets – Software	21(a)	621,076	441,597
Intangible assets – Goodwill	22(a)	2,743,001	2,712,564
Intangible assets – Brand	22(b)	463,430	459,394
Prepaid operating lease rentals	23(a)	7,167	7,351
Other financial assets	25	10,000	10,000
Deferred income tax assets	19(a)	580,761	726,114
		57,463,246	49,720,864
Current assets			
Inventories	26(a)	7,368,012	7,882,606
Trade and other receivables	27(a)	8,222,994	7,946,481
Current income tax		1,363,112	2,108,505
Derivative financial instruments	32	179,678	-
Cash and bank balances	31(b)	12,468,585	3,588,370
		29,602,381	21,525,962

(Continued on Page 24)

Consolidated statement of financial position (continued)

		At 30 June	
		2019	2018
		Kshs '000	Kshs '000
Current liabilities			
Trade and other payables	28(a)	27,864,192	24,629,299
Dividends payable	14	590,623	562,611
Borrowings	33(a)	5,204,566	118,667
Derivative financial instruments	32	-	71,946
Bank overdraft	31(b)	-	401,245
		33,659,381	25,783,768
Net current liabilities		(4,057,000)	(4,257,806)
		53,406,246	45,463,058

The financial statements on pages 20 to 93 were approved for issue by the board of Directors on 25 July 2019 and signed on its behalf by:


Mr. Andrew Cowan
Director


Dr. György Geiszl
Director

Company statement of financial position

		At 30 June 2019	2018
	Note	Kshs '000	Kshs '000
Equity attributable to owners of the Company			
Share capital	16	1,581,547	1,581,547
Share premium	16	1,691,151	1,691,151
Proposed dividends		4,744,646	4,349,259
Share based payment reserve	17(b)	26,184	14,584
Retained earnings		8,889,515	8,645,297
Total equity		16,933,043	16,281,838
Non-current liabilities			
Borrowings	33(b)	31,115,178	30,337,698
Total equity and non-current liabilities		48,048,221	46,619,536
Non-current assets			
Property, plant and equipment	20(b)	549,171	382,388
Prepaid operating lease rentals	23(b)	-	644
Intangible assets – software	21(b)	125,303	206,427
Investment in subsidiaries	24	39,955,009	40,105,207
Other financial assets	25	10,000	10,000
Receivables from related parties	34(b)	18,618,264	18,502,436
Deferred income tax asset	19(b)	507,688	726,114
		59,765,435	59,933,216
Current assets			
Inventories	26(b)	-	38,906
Trade and other receivables	27(b)	1,150,474	3,825,755
Current income tax		1,771,712	1,391,212
Derivative financial instruments	32	179,678	-
Cash and bank balances	31(b)	9,020,367	1,685,800
		12,122,231	6,941,673
Current liabilities			
Trade and other payables	28(b)	18,248,822	19,613,621
Dividends payable	14	590,623	562,611
Derivative financial instruments	32	-	71,946
Bank overdraft	31(b)	-	7,175
Borrowings	33(b)	5,000,000	-
		23,839,445	20,255,353
Net current liabilities		(11,717,214)	(13,313,680)
		48,048,221	46,619,536

The financial statements on pages 20 to 93 were approved for issue by the board of Directors on 25 July 2019 and signed on its behalf by:


Mr. Andrew Cowan
Director


Dr. György Geiszl
Director

Consolidated statement of changes in equity

Year ended 30 June 2019

	Share capital Kshs '000	Share premium Kshs '000	Treasury shares Kshs '000	Share based payment reserve Kshs '000	Translation reserve Kshs '000	Proposed dividends Kshs '000	Retained earnings Kshs '000	Total Kshs '000	Non- controlling interests Kshs '000	Total equity Kshs '000
At 1 July 2018	1,581,547	1,691,151	(507,275)	14,584	(3,381,533)	4,349,259	1,933,212	5,680,945	5,971,091	11,652,036
IFRS 9 transition adjustment (Note 27)	-	-	-	-	-	-	(73,819)	(73,819)	-	(73,819)
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	8,877,789	8,877,789	2,637,341	11,515,130
Other comprehensive income	-	-	-	-	575,780	-	-	575,780	35,163	610,943
Total comprehensive income for the year	-	-	-	-	575,780	-	8,877,789	9,453,569	2,672,504	12,126,073
Transactions with owners of the Company										
Share based payment reserve (Note 17(a))	-	-	-	11,600	-	-	-	11,600	-	11,600
Employees share ownership plan (Note 17(a))	-	-	(101,722)	-	-	-	-	(101,722)	-	(101,722)
Dividends:										
- Proposed final for 2019	-	-	-	-	-	4,744,646	(4,744,646)	-	-	-
- Interim for 2019	-	-	-	-	-	-	(1,976,935)	(1,976,935)	-	(1,976,935)
- Final for 2018	-	-	-	-	-	(4,349,259)	-	(4,349,259)	(1,133,223)	(5,482,482)
Total transactions with owners of the Company	-	-	(101,722)	11,600	-	395,387	(6,721,581)	(6,416,316)	(1,133,223)	(7,549,539)
At 30 June 2019	1,581,547	1,691,151	(608,997)	26,184	(2,805,753)	4,744,646	4,015,601	8,644,379	7,510,372	16,154,751

Consolidated statement of changes in equity (continued)

Year ended 30 June 2018

	Share capital Kshs '000	Share premium Kshs '000	Treasury shares Kshs '000	Share based payment reserve Kshs '000	Translation reserves Kshs '000	Proposed dividends Kshs '000	Retained earnings Kshs '000	Total Kshs '000	Non- controlling interests Kshs '000	Total equity Kshs '000
At 1 July 2017	1,581,547	1,691,151	-	-	(2,571,084)	4,349,259	7,334,700	12,385,573	(397,403)	11,988,170
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	5,683,764	5,683,764	1,571,791	7,255,555
Other comprehensive income	-	-	-	-	(810,449)	-	-	(810,449)	(54,618)	(865,067)
Total comprehensive income for the year	-	-	-	-	(810,449)	-	5,683,764	4,873,315	1,517,173	6,390,488
Transactions with owners of the Company										
Transactions with non-controlling interests (Note 18)	-	-	-	-	-	-	(5,694,139)	(5,694,139)	5,694,139	-
Share based payment reserve (Note 17(a))	-	-	-	14,584	-	-	-	14,584	-	14,584
Employees share ownership plan (Note 17(a))	-	-	(507,275)	-	-	-	539,694	32,419	-	32,419
Dividends:										
- Proposed final for 2018	-	-	-	-	-	4,349,259	(4,349,259)	-	-	-
- Interim for 2018	-	-	-	-	-	-	(1,581,548)	(1,581,548)	-	(1,581,548)
- Final for 2017	-	-	-	-	-	(4,349,259)	-	(4,349,259)	(842,818)	(5,192,007)
Total transactions with owners of the Company	-	-	(507,275)	14,584	-	-	(11,085,252)	(11,577,943)	4,851,321	(6,726,622)
At 30 June 2018	1,581,547	1,691,151	(507,275)	14,584	(3,381,533)	4,349,259	1,933,212	5,680,945	5,971,091	11,652,036

Company statement of changes in equity

	Share capital Kshs'000	Share premium Kshs'000	Share based payment reserve Kshs '000	Proposed dividends Kshs'000	Retained earnings Kshs'000	Total equity Kshs'000
At 1 July 2018	1,581,547	1,691,151	14,584	4,349,259	8,645,297	16,281,838
Total comprehensive income for the year	-	-	-	-	6,965,799	6,965,799
Transactions with owners of the Company:						
Share based payment reserve (Note 17(a))	-	-	11,600	-	-	11,600
Dividends:						
- Proposed final for 2019	-	-	-	4,744,646	(4,744,646)	-
- Interim for 2019	-	-	-	-	(1,976,935)	(1,976,935)
- Final for 2018	-	-	-	(4,349,259)	-	(4,349,259)
Total transactions with owners of the Company	-	-	11,600	395,387	(6,721,581)	(6,314,594)
At 30 June 2019	1,581,547	1,691,151	26,184	4,744,646	8,889,515	16,933,043
At 1 July 2017	1,581,547	1,691,151	-	4,349,259	12,516,751	20,138,708
Total comprehensive income for the year	-	-	-	-	2,059,353	2,059,353
Transactions with owners of the Company:						
Share based payment reserve (Note 17(a))	-	-	14,584	-	-	14,584
Dividends:						
- Proposed final for 2018	-	-	-	4,349,259	(4,349,259)	-
- Interim for 2018	-	-	-	-	(1,581,548)	(1,581,548)
- Final for 2017	-	-	-	(4,349,259)	-	(4,349,259)
Total transactions with owners of the Company	-	-	14,584	-	(5,930,807)	(5,916,223)
At 30 June 2018	1,581,547	1,691,151	14,584	4,349,259	8,645,297	16,281,838

Consolidated statement of cash flows

		At 30 June	
	Notes	2019	2018
		Kshs '000	Kshs '000
Operating activities			
Cash generated from operations	31(a)	28,491,403	21,717,296
Interest received	12(a)	120,601	81,949
Interest paid		(3,725,127)	(3,429,018)
Income tax paid		(2,321,074)	(4,810,885)
Net cash generated from operating activities		22,565,803	13,559,342
Investing activities			
Purchase of property, plant and equipment	20(a)	(11,676,964)	(13,028,734)
Purchase of intangible assets - software	21(a)	(91,614)	(2,627)
Proceeds from disposal of property, plant and equipment		222,364	2,539,228
Net cash used in investing activities		(11,546,214)	(10,492,133)
Financing activities			
Dividends paid to Company's shareholders	14	(6,298,182)	(5,855,305)
Dividends paid to non-controlling interests		(1,133,223)	(842,818)
Proceeds from borrowings - Long term bank loan	33(a)	17,334,800	4,907,194
- Short term bank loan	33(a)	-	3,800,000
Repayment of borrowings	33(a)	(11,525,326)	(5,492,942)
Purchase of treasury shares	17	(101,722)	(9,272)
Net cash used in financing activities		(1,723,653)	(3,493,143)
Net increase/(decrease) in cash and cash equivalents		9,295,936	(425,934)
Movement in cash and cash equivalents			
At start of year		3,187,125	3,318,107
Foreign exchange impact on translation		(14,476)	294,952
Net increase/(decrease) during the year		9,295,936	(425,934)
Cash and cash equivalents at end of year	31(b)	12,468,585	3,187,125

Company statement of cash flows

		At 30 June	
	Notes	2019	2018
		Kshs '000	Kshs '000
Operating activities			
Cash generated from operations	31(a)	5,212,528	10,232,649
Interest received	12(b)	1,819,259	1,584,653
Interest paid		(4,685,570)	(3,871,045)
Income tax paid		(605,958)	(220,162)
Net cash generated from operating activities		1,740,259	7,726,095
Investing activities			
Purchase of property and equipment	20(b)	(326,144)	(71,659)
Purchase of intangible assets - software	21(b)	(2,163)	(2,627)
Proceeds from disposal of property and equipment		318,279	1,786,943
Proceeds on disposal of prepaid operating lease rentals		630	421
Movement in intercompany funding		-	(15,000,000)
Dividends received from subsidiaries		6,131,586	7,798,813
Net cash generated from / (used in) investing activities		6,122,188	(5,488,109)
Financing activities			
Dividends paid to Company's shareholders	14	(6,298,182)	(5,855,305)
Proceeds from borrowings - Long term bank loan	33(b)	17,334,800	4,907,194
- Short term bank loan	33(b)	-	3,800,000
Repayment of borrowings	33(b)	(11,557,320)	(5,338,732)
Net cash used in financing activities		(520,702)	(2,486,843)
Increase/(decrease) in cash and cash equivalents		7,341,742	(248,857)
Movement in cash and cash equivalents			
At start of year		1,678,625	1,927,482
Increase/(decrease) during the year		7,341,742	(248,857)
At end of year	31(b)	9,020,367	1,678,625

Notes

1 General information

East African Breweries Limited is incorporated as a limited liability Company in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The address of its registered office and principal place of business is as follows:

East African Breweries Limited
Corporate Centre, Ruaraka
P.O Box 30161
00100 Nairobi GPO

The consolidated financial statements for the Company as at 30 June 2019 and for the year then ended comprise the Company and the subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is primarily involved in marketing, production and distribution of a collection of brands that range from beer, spirits to adult non-alcoholic drinks.

The Company's shares are listed on the Nairobi Securities Exchange, Dar es Salaam Stock Exchange and Uganda Stock Exchange.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss account by the income statement, in these financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) *Basis of accounting*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Kenyan Companies Act, 2015. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

(ii) *Going Concern*

The Group's statement of financial position indicates a net current liabilities position of Kshs 4,057,000,000 (2018: Kshs 4,257,806,000). As Directors, we are satisfied that this is transient in nature as the Group continues to align its capital expenditure with long term funding. The Capital Markets Authority has exempted the Group from maintaining a current ratio of 1 until 2020. The Group had undrawn funding available as at 30 June 2019 of Kshs 7.7 billion (2018: Kshs 13.4 billion) as disclosed in Note 33.

To further satisfy themselves as to the going concern of the Group Management have undertaken a detailed funding assessment including a debt maturity analysis. Based on the outcome of this exercise it was concluded that the Group would generate/access sufficient funds to meet all its obligations over the next twelve month period from the date of the financial statements.

(iii) *Functional and presentation currency*

The financial statements are presented in Kenya Shillings (Kshs) which is the Company's functional currency. All financial information presented in Kenya Shillings have been rounded to the nearest thousand except when otherwise indicated.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency) except where otherwise indicated.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Use of judgement and estimates

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 where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(v) New and amended standards adopted by the Group

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 July 2018:

IFRS 9 Financial Instruments

During the year, the Group adopted IFRS 9 *Financial Instruments* (IFRS 9). As a result of the application of IFRS 9, there was a change in the accounting policies and these new policies were applicable from 1 July 2018. As permitted by the transition provisions of IFRS 9, the Group elected not to restate comparative period results. Accordingly, all comparative period information is presented in accordance with the previous accounting policies, as indicated below. New or amended disclosures have been provided for the current period where applicable, and comparative period disclosures are consistent with those made in the prior year.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

Classification and measurement of financial assets

Upon adoption of IFRS 9, all recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group primarily holds trade receivables and bank balances as its financial assets. The Directors of the Group reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that with the initial application of IFRS 9 the trade receivables and bank balances that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Classification of financial assets in accordance with IFRS 9 has therefore not had any impact on the Group's financial statements in the current or prior years.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) New and amended standards adopted by the Group (continued)

IFRS 9 Financial instruments (continued)

Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of financial liabilities designated as at fair value through profit or loss (FVTPL) attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

There were no financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. Therefore, the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The below are the significant financial assets in the Group's balance sheet which are subject to the impairment provision of IFRS 9:

- Trade receivables
- Bank balances

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) New and amended standards adopted by the Group (continued)

IFRS 9 Financial instruments (continued)

Impairment of financial assets (continued)

The results of the impairment assessment upon first time adoption of IFRS 9 are as reflected in the table below:

Items existing as at 1 July 2018 that are subject to impairment provision of IFRS 9	Credit risk attributes at 1 January 2018	Cumulative additional allowance recognised on 1 July 2018	Cumulative additional allowance recognised on 1 July 2018
		Group	Company
		Kshs'000	Kshs'000
Trade receivables	For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.	105,455	-
Bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banks.	-	-
Total		105,455	-

The additional credit loss allowance of Kshs 105,455,000 as at 1 July 2018 was recognised against the Group's retained earnings, net of the related deferred tax impact of Kshs 31,637,000, resulting in a net decrease in retained earnings of Kshs 73,819,000.

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) New and amended standards adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

General hedge accounting (continued)

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current and/or prior years as the Group has no hedging relationships that go through hedge accounting as per IFRS 9.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The Group adopted the amendments beginning 1 July 2018. The application of the amendments has had no impact on the financial statements as the Group does not have any cash-settled share-based payment arrangements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group adopted the interpretation beginning 1 July 2018. The adoption of the interpretation has had no impact on the financial statements as the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the requirements of the interpretation.

(vi) Relevant new standards and interpretations not yet adopted by the Group

IFRS 16 Leases

The new standard specifies how an entity will recognise, measure, present and disclose leases. The standard introduces a new lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted. Application of IFRS 16 during the financial year 2020 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Group is the lessee. Based on the Directors' preliminary assessment, right-of-use assets and lease liabilities both of Kshs 1.2 billion will have to be recognised at 1 July 2019.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(vi) *Relevant new standards and interpretations not yet adopted by the Group (continued)*

IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

(vii) *Early adoption of standards*

The Group did not early adopt new or amended standards in the year ended 30 June 2019.

(b) Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiaries. A subsidiary is an entity controlled by East African Breweries Limited. Control is the power to direct the relevant activities of the subsidiary that significantly affects the subsidiary's return so as to have rights to the variable return from its activities.

Where the Group has the ability to exercise joint control over an entity but has rights to specified assets and obligations for liabilities of that entity, the entity is consolidated on the basis of the group's rights over those assets and liabilities.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Investments in subsidiaries are accounted for at cost in the Company's financial statements.

(ii) Non-controlling interest (NCI)

NCI are initially measured at their proportionate share of the acquired identifiable net assets at the acquisition date.

(iii) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair values of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

(iv) Balances and transactions eliminated at consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Revenue recognition

The Group recognises revenue from the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue at a point in time as and when it satisfies a performance obligation by transferring control of a product or service to a customer.

The amount of revenue recognised is the amount the Group expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as value-added tax (VAT), excises, returns, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised as follows:

- (i) Sales of goods are recognised in the period in which the Group delivers products to the customer, the customer accepts the products and collectability of the related receivables is reasonably assured.
- (ii) Royalty income is recognised based on agreed rates applied on net sales value of the related products.
- (iii) Management fee is recognised based on actual costs plus an agreed mark up.

(d) Dividend income

Dividend income is recognised as income in the period in which the right to receive the payment is established.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(e) Finance income and costs

Finance income comprises interest income and foreign exchange gains that relate to borrowings and cash and cash equivalents. Interest income is recognised in profit or loss on a time proportion basis using the effective interest method. Once a financial asset is identified as credit-impaired, the effective interest rate is applied to the amortised cost (net of impairment losses) in subsequent reporting periods.

Finance costs comprise interest expense and foreign exchange losses that relate to borrowings and cash and cash equivalents. Interest expense is recognised in profit or loss using the effective interest method.

All other foreign exchange gains and losses are presented in profit or loss within 'other income/expenses'.

(f) Foreign currency translation

Foreign currency transactions are translated into the functional currency of the respective entity 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Consolidation of Group entities

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of profit or loss and other comprehensive income 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 actual rates at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve except to the extent that the translation difference is allocated to Non-controlling interest (NCI).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the profit or loss as part of the gain or loss on sale.

If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into presentation currency at the closing exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at actual exchange rates at the dates of the transactions.

(g) Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Expenditure on assets under construction is charged to work in progress until the asset is brought into use. Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	25 years or unexpired period of lease if less than 25 years
Plant, equipment, furniture and fittings	5 – 33 years
Motor vehicles	4 – 5 years
Returnable packaging	5 – 15 years

Freehold land and capital work in progress is not depreciated.

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date and adjusted if appropriate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income/expenses” in the profit or loss.

(h) Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of the software from the date that they are available for use. The estimated useful life is three to five years.

(ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on subsidiaries is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on 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 that are expected to benefit from the business combination in which the goodwill arose.

(iii) Brands

Brands acquired as part of acquisitions of businesses are capitalised as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Brands are considered to have an indefinite economic life because of the institutional nature of the brands and the Group's commitment to develop and enhance their value. The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(i) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification

The Group classifies its financial instruments into the following categories:

- i) Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost;
- ii) Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at fair value through other comprehensive income;
- iii) All other financial assets are classified and measured at fair value through profit or loss.
- iv) Notwithstanding the above, the Group may:
 - a) on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.
 - b) on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.
- v) Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The Group may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.
- vi) All other financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions, trade and other receivables and balances with related parties. These were classified as at amortised cost.
- Borrowings and trade and other liabilities. These were also classified as at amortised cost.

Initial measurement

On initial recognition:

- i) Financial assets or financial liabilities classified as fair value through profit or loss are measured at fair value.
- ii) Trade receivables are measured at their transaction price.
- iii) All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

Subsequent measurement

Financial assets and financial liabilities after initial recognition are measured either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss according to their classification.

Interest income, dividend income, and exchange gains and losses on monetary items are recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished, cancelled or expires.

(j) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are intended to acquire, increase, reduce or alter exposure to market risks. The Group uses derivatives, primarily foreign exchange forward contracts, to manage exposure to currency risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset while a derivative with a negative fair value is recognised as a financial liability.

(k) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(l) Leases

(i) Finance leases

Leases of equipment, including hire purchase contracts where the Group assumes substantially all the risks and rewards incident to ownership, are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. The finance cost is charged to the profit or loss account in the year in which it is incurred. Equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

(ii) Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the profit or loss account on a straight line basis over the term of the lease.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress comprises an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(n) Treasury shares

Treasury shares are shares in East African Breweries Limited that are held by the East African Breweries Limited Employee Share Ownership Plan for the purpose of issuing shares under the Group's share ownership scheme. Treasury shares are recognised at cost where cost is determined to be the purchase price of the shares in an open market (Nairobi Securities Exchange). Shares issued to employees are recognised on a first-in-first-out basis.

(o) Share-based payment arrangements

The Group operates equity-settled share-based compensation plans for its employees and executives. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share based payment reserve in equity.

(p) Employee benefits

(i) Retirement benefits obligations

The Group operates defined contribution retirement benefit schemes for some of its employees. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Funds, which are defined contribution schemes.

The Group's contributions to the defined contribution schemes are recognised in the profit or loss in the year to which they relate. The Group has no further obligation once the contributions have been paid.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(q) Income tax expense

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount of tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation and any adjustment to tax payable or receivable in respect of previous years. The current tax charge is calculated on the basis of the tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. A tax rate reconciliation that reconciles the notional taxation charge as calculated at the Kenya tax rate, to the actual total tax charge is prepared on a materiality basis. As a Group operating in multiple countries, the actual tax rates applicable to profits in some of countries are different from the Kenya tax rate.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(r) Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

(s) Segmental reporting

Segment information is presented in respect of the Group's geographical segments, which is the primary format and is based on the countries in which the Group operates. The Group has no other distinguishable significant business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(t) Impairment

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial instruments that are measured at amortised cost or at fair value through other comprehensive income. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, 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.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment of loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Notes (Continued)

2 Summary of significant accounting policies (continued)

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

(v) Borrowing costs

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs that are 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 capitalised as part of the cost of those assets, until such a 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.

(w) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Group entity are recognised at the proceeds received, net of direct issue costs.

(x) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and deposits held at call with the banks net of bank overdrafts.

(y) Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in the current year.

Notes (Continued)

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expected future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and judgements

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 addressed below:

(i) Impairment of goodwill and other indefinite lived intangible assets (brand)

Assessment of the recoverable value of an intangible assets, the useful economic life of an asset, or that an asset has an indefinite life, requires management judgement. The Group annually tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(t). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations as stated in Note 22.

(ii) Calculation of loss allowance on financial assets

When measuring expected credit loss on financial assets, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

(iii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 income tax provisions in the period in which such determination is made. Disclosures on contingent liabilities with respect to tax are included in Note 29.

(iv) Property, plant and equipment

Critical estimates are made by the Directors in determining useful lives for property, plant and equipment. The rates used are set out in Note 2(g) above. Directors also apply estimates in determining the existence of returnable packaging materials.

(b) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining whether assets are impaired based on an annual fixed assets verification exercise.

Notes (Continued)

4 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risks which mainly comprise effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. This note presents information about the Group's exposure to financial risks, the Group's objectives, policies and processes for measuring and managing the financial risks. Further quantitative disclosures are included throughout these financial statements.

The Group has established a risk management committee made up of senior management which is responsible for developing and monitoring the Group's risk management policies. These policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group has also established a controls and compliance function, which carries out regular and adhoc reviews of risk management controls and procedures. The results are reported to senior management.

Market risk

i. Foreign currency risk

Foreign currency risk arises on sales, purchases, borrowings and other monetary balances denominated in currencies other than Kenya Shillings. Management's policy to manage foreign exchange risk is to actively manage the foreign currency denominated procurement contracts. The Group also enters into short term cash flow hedge contracts using available cash balance.

In addition, the Group manages the foreign currency exposure on foreign denominated borrowings through foreign exchange forward contracts.

A 5 percent strengthening of the Kenya shilling against the following currencies at 30 June 2019 would have increased/(decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis was performed on the same basis for 2018.

Group At 30 June		Profit or loss/equity	
		2019 Kshs'000	2018 Kshs'000
EUR	Euro	276,673	252,563
GBP	Sterling Pound	7,160	1,490,481
RWF	Rwandese Franc (RWF)	(687)	-
TZS	Tanzania Shillings	799	1,049
UGX	Uganda Shillings	94,653	97,853
USD	US Dollar	21,919	876,921
ZAR	South African Rand	(384)	1,945
		400,133	2,720,812

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Market risk (continued)

i. Foreign currency risk (continued)

Company At 30 June		Profit or loss/equity	
		2019 Kshs'000	2018 Kshs'000
EUR	Euro	385,627	229,280
GBP	Pound Sterling	56,990	1,450,230
SSP	South Sudanese Pound	-	520
TZS	Tanzanian Shilling (TZS)	883	-
UGX	Ugandan Shilling	92,487	98,317
USD	US Dollar	40,295	850,000
		576,282	2,628,347

ii. Price risk

The Group does not hold any financial instruments subject to price risk.

iii. Interest rate risk

The Group's interest bearing financial instruments include bank loans, bank overdrafts and related party borrowings. These are at various rates, and they are therefore exposed to cash flow interest rate risk. The Group regularly monitors financing options available to ensure optimum interest rates are obtained.

As at 30 June 2019, an increase/decrease of 1 percentage point would have resulted in a decrease/increase in profit for the year of Kshs 38,329,450 (2018: Kshs 37,410,000), mainly as a result of higher/lower interest charges on variable rate borrowings.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from bank balances (including deposits with banks and financial institutions), derivative financial instruments, as well as credit exposures to customers, including outstanding trade and other receivables, financial guarantees and committed transactions.

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk at the end of the reporting period excluding the impact of any collateral held or other credit enhancements:

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Credit risk (continued)

	2019 Kshs 000	2018 Kshs 000
(a) Group		
Trade receivables (note 27(a))	4,928,580	5,371,289
Other receivables (note 27(a))	1,847,867	2,657,087
Receivables from related companies (note 27(a))	217,767	350,966
Derivative financial asset	179,678	-
Bank balances (Note 31(b))	12,468,585	3,588,370
	19,642,477	11,967,712
(b) Company		
Trade receivables (note 27(b))	-	512,080
Other receivables (note 27(b))	230,049	383,818
Receivables from related companies (note 27(b))	831,475	2,925,420
Derivative financial asset	179,678	-
Bank balances (Note 31(b))	9,020,367	1,685,800
	10,261,569	5,507,118

Credit risk management policy

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit risk on deposits with banking institutions is managed by dealing with institutions with good credit ratings.

Trade and other receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. The operating units analyse credit risk for each new customer before standard payment and delivery terms are offered, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings. The utilisation of credit limits is monitored regularly. In addition, the Group manages credit risk by requiring the customers to provide financial guarantees.

The Group does not have any significant concentrations of credit risk with respect to trade and other receivables as the Group has a large number of customers which are geographically dispersed. The credit risk associated with receivables is minimal and the allowance expected credit losses that the Group has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Credit risk (continued)

Impairment of financial assets

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the customer and an analysis of the customer's current financial position, adjusted for factors that are specific to the customers, general economic conditions in which the customers operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The table below reflects the trade and other receivables, together with the provision for expected credit losses:

(a) Group

	2019 Kshs'000	2018 Kshs'000
Not due,	2,434,817	4,392,766
Past due but not impaired:		
-by up to 30 days	1,943,592	1,768,847
-by 31 to 120 days	1,625,569	1,056,325
-over 121 days	139,575	305,041
Trade and other receivables	6,143,553	7,522,979

Receivables individually determined to be impaired:

Carrying amount before provision for expected credit losses	850,660	856,495
Provision for expected credit losses	(850,660)	(856,495)
Net carrying amount	6,143,553	7,522,979

(b) Company

Not due,	916,088	2,701,103
Past due but not impaired:		
-by upto 30 days	44,828	900,336
-by 31 to 120 days	100,608	219,879
Trade and other receivables	1,061,524	3,821,318

Receivables individually determined to be impaired:

Carrying amount before provision for expected credit losses	-	-
Provision for expected credit losses	-	-
Net carrying amount	1,061,524	3,821,318

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due.

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances and ensuring the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Management performs cash flow forecasting and monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019:	Current Kshs'000	Less than 1 year Kshs'000	Between 1 and 2 years Kshs'000	Between 2 and 5 years Kshs'000	Over 5 years Kshs'000	Total Kshs'000
Group						
- Borrowings	748,663	7,485,457	7,701,933	19,169,991	13,020,722	48,126,766
- Trade and other payables	8,474,359	19,389,833	-	-	-	27,864,192
- Dividend payable	590,623	-	-	-	-	590,623
	9,813,645	26,875,290	7,701,933	19,169,991	13,020,722	76,581,581
At 30 June 2019:						
	Current Kshs'000	Less than 1 year Kshs'000	Between 1 and 2 years Kshs'000	Between 2 and 5 years Kshs'000	Over 5 years Kshs'000	Total Kshs'000
Company						
- Borrowings	748,663	7,245,988	5,826,127	19,169,991	13,020,722	46,011,491
- Trade and other payables	2,816,239	12,447,593	-	-	-	15,263,832
- Dividend payable	590,623	-	-	-	-	590,623
	4,155,525	19,693,581	5,826,127	19,169,991	13,020,722	61,865,946

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 30 June 2018:	Current	Less than 1	Between 1	Between 2	Over 5	Total
	Kshs'000	year	and 2 years	and 5 years	years	Kshs'000
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	
Group						
- Borrowings	118,667	-	5,000,000	10,209,091	3,868,462	19,196,220
- Related party borrowings	-	-	-	-	11,469,236	11,469,236
- Derivative financial liability	71,946	-	-	-	-	71,946
- Bank overdrafts	-	401,245	-	-	-	401,245
- Trade and other payables	2,980,139	21,649,160	-	-	-	24,629,299
- Dividend payable	562,611	-	-	-	-	562,611
	3,733,363	22,050,405	5,000,000	10,209,091	15,337,698	56,330,557

At 30 June 2018:	Current	Less than 1	Between 1	Between 2	Over 5	Total
	Kshs'000	year	and 2 years	and 5 years	years	Kshs'000
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	
Company						
- Borrowings	-	-	5,000,000	6,000,000	7,868,462	18,868,462
- Related party borrowings	-	-	-	-	11,469,236	11,469,236
- Derivative financial liability	71,946	-	-	-	-	71,946
- Bank overdrafts	-	7,175	-	-	-	7,175
- Trade and other payables	16,926,026	2,687,595	-	-	-	19,613,621
- Dividend payable	562,611	-	-	-	-	562,611
	21,429,043	2,694,770	5,000,000	6,000,000	19,337,698	50,593,051

Capital risk management

The Group is committed to enhancing shareholder value in the long term, both by investing in the businesses and brands so as to deliver continued improvement in the return from those investments and by managing the capital structure. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's objectives when managing capital are:

- To ensure that the Company and the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.
- To maintain a strong capital base to support the current and future development needs of the business.

In the management of the capital structure, the Group focuses on the net borrowings to earnings before interest, taxes, depreciation, and amortization (EBITDA) leverage. The Group targets a net borrowings to EBITDA leverage of 1.0 to 1.25 times. The Group regularly reviews the net borrowings to EBITDA leverage to ensure that it is within the set limits.

The Group is not subject to externally imposed capital requirements.

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Capital risk management (continued)

The Group reported net borrowings to EBITDA leverage reflected in the table below:

	2019 Kshs'000	2018 Kshs'000
Net borrowings:		
Total borrowings (Note 33)	36,319,744	31,066,701
Less: cash and bank balances (Note 31(b))	(12,468,585)	(3,588,370)
Net debt	23,851,159	27,478,331
EBITDA		
Profit before tax	17,814,650	11,741,810
Adjusted for:		
Net finance costs	3,371,976	3,359,118
Depreciation and amortisation	3,907,331	3,645,480
Total EBITDA	25,093,957	18,746,408
Net Debt to EBITDA	0.95x	1.47x

Fair value measurement

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations. The Group specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect the Group's market assumptions.

The different levels in the fair value hierarchy have been defined as follows:

- i) Level 1 fair value measurements are derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes listed debt and equity instruments traded mainly on the Nairobi Securities Exchange ("NSE").
- ii) Level 2 fair value measurements are derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices).
- iii) Level 3 fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The Group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Notes (Continued)

4 Financial risk management objectives and policies (continued)

Fair value measurement (continued)

Foreign currency forward contracts are valued using discounted cash flows technique that incorporate the prevailing market rates. Under this technique, future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period), discounted at a rate that reflects the credit risk of the counterparties.

As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy. Other investments are carried at cost as there is no suitable basis for its valuation and are therefore categorised as level 3 in the hierarchy.

The following table presents the Group and Company's financial assets and liabilities that are measured at fair value at 30 June 2019.

	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial assets at fair value through profit or loss:				
-Other financial assets	-	-	10,000	10,000
-Derivative financial instruments (Foreign exchange forward contracts)	-	179,678	-	179,678
Net assets at fair value through profit or loss	-	179,678	10,000	189,678

The following table presents the Group and Company's financial assets and liabilities that are measured at fair value at 30 June 2018.

	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial assets at fair value through profit or loss:				
Other financial assets	-	-	10,000	10,000
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments (Foreign exchange forward contracts)	-	(71,946)	-	(71,946)
Net assets at fair value through profit or loss	-	(71,946)	10,000	(61,946)

There were no transfers between levels during the years ended 30 June 2019 and 30 June 2018.

Notes (Continued)

5 Segmental reporting

Directors have determined the operating segments based on the reports reviewed by the Group Executive Committee that are used to make strategic decisions. The Group Executive Committee includes the Group Managing Director and the Group Finance and Strategy Director.

The Group Executive Committee considers the business from a geographical perspective. Geographically, the Group Executive Committee considers the performance of the business in Kenya, Uganda and Tanzania. Exports to South Sudan, Rwanda, Burundi and the Great Lakes Region are recognised in the country of origin.

The reportable operating segments derive their revenue primarily from brewing, marketing and selling of drinks, malt and barley. The Group Executive Committee assesses the performance of the operating segments based on a measure of net sales value.

The segmental information provided to the Group Executive Committee is as follows:

	Kenya		Uganda		Tanzania		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
External sales	60,369,485	53,371,231	12,436,690	11,912,213	9,737,066	8,173,388	-	-	82,543,241	73,456,832
Inter segment sales	5,978,845	6,903,578	45,855	28,277	-	16,556	(6,024,700)	(6,948,411)	-	-
Total sales	66,348,330	60,274,809	12,482,545	11,940,490	9,737,066	8,189,944	(6,024,700)	(6,948,411)	82,543,241	73,456,832

Notes (Continued)

5 Segmental reporting (continued)

Reportable segments assets and liabilities agree to the consolidated assets as follows:

	Kenya		Uganda		Tanzania		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Segment non-current assets	80,040,676	74,995,854	7,255,246	5,465,994	8,856,216	8,093,008	(38,688,892)	(38,833,992)	57,463,246	49,720,864
Total segment assets	104,193,433	93,802,019	11,811,463	8,848,544	12,580,692	10,999,432	(41,519,961)	(42,403,169)	87,065,627	71,246,826
Segment liabilities	64,840,160	57,152,310	8,688,218	6,760,049	3,807,958	2,926,524	(6,425,460)	(7,244,093)	70,910,876	59,594,790
Capital expenditure	8,156,689	10,942,093	2,121,511	1,290,964	1,490,378	798,304	-	-	11,768,578	13,031,361
Depreciation and amortisation	2,575,928	2,402,142	529,797	461,271	801,606	782,067	-	-	3,907,331	3,645,480

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year. Segment revenue is based on the geographical location of both customers and assets. The revenue from external parties reported to the Group Executive Committee is measured in a manner consistent with that in the statement of profit or loss. There is no reliance on individually significant customers by the Group. The amounts provided to the Group Executive Committee in respect to total assets and total liabilities are measured in a manner consistent with that of the statement of financial position.

Notes (Continued)

6 Revenue from contracts with customers	2019	2018
	Kshs '000	Kshs '000
(a) Group		
Gross sales	149,660,062	135,037,775
Indirect taxes	(67,116,821)	(61,580,943)
	82,543,241	73,456,832
(b) Company		
Sale of product	3,341,978	5,667,981
Dividend income	6,131,586	7,798,813
Management fees	1,200,313	1,445,643
Royalties	940,961	891,997
	11,614,838	15,804,434
7 Cost of sales		
(a) Group		
Raw materials and consumables	22,514,463	21,639,676
Distribution and warehousing	6,230,883	5,251,900
Maintenance and other costs	7,984,548	7,288,566
Staff costs	4,353,728	3,711,495
Depreciation and amortisation	3,342,482	3,160,772
	44,426,104	41,052,409
(b) Company		
Cost of goods sold	1,450,323	2,379,412
Distribution and warehousing	53,485	23,993
Staff costs	298,666	259,021
Maintenance and other costs	-	124
	1,802,474	2,662,550

Notes (Continued)

8	Administrative expenses	2019 Kshs '000	2018 Kshs '000
	(a) Group		
	Staff costs	6,669,347	5,694,930
	Office supplies and other costs	2,185,125	2,139,538
	Depreciation and amortisation	343,885	419,184
	Travelling and entertainment	199,865	281,192
		9,398,222	8,534,844
	(b) Company		
	Staff costs	1,030,800	951,734
	Office supplies and other costs	455,170	490,052
	Depreciation and amortisation	131,496	128,053
	Travelling and entertainment	51,315	86,490
		1,668,781	1,656,329
9	Other income/(expenses), net		
	(a) Group		
	Other income		
	Transactional foreign exchange gains	1,280,390	-
	Profit on disposal of property, plant and equipment (Note 31(a))	-	699,098
	Sundry income	302,937	467,191
		1,583,327	1,166,289
	Other expenses		
	Indirect tax expenses (*)	1,324,001	2,604,670
	Transactional foreign exchange losses	-	391,260
	Expected credit losses on trade receivables (Note 27)	134,361	137,650
	Write down of inventories	99,879	89,846
	Loss on disposal of property, plant and equipment (Note 31(a))	26,478	-
	Sundry expenses	321,497	287,747
		1,906,216	3,511,173
		(322,889)	(2,344,884)

(*) Indirect tax expenses are expenses associated with irrecoverable VAT, irrecoverable withholding tax and other tax provisions.

Notes (Continued)

9 Other income/(expenses),net (continued)	2019	2018
	Kshs '000	Kshs '000
(b) Company		
Other income		
Credit from capital reduction by a subsidiary (Note 24)	2,255,372	-
Net transactional foreign exchange gains	55,486	-
Sundry income	20,896	-
	2,331,754	-
Other expenses		
Write-off of loan receivable from subsidiary (SBL) (Note 18)	-	4,256,282
Write-off of loan receivable from subsidiary (EABSS)	-	1,751,000
Net transactional foreign exchange losses	-	345,060
Irrecoverable withholding tax	59,891	189,807
Sundry expenses	374,625	185,870
	434,516	6,728,019
	1,897,238	(6,728,019)

10 Profit before income tax

The following items have been charged in arriving at the profit before tax

	2019	2018
	Kshs '000	Kshs '000
(a) Group		
Inventories expensed (raw materials and consumables) (Note 26)	22,514,463	21,639,676
Employee benefits expense (Note 11(a))	11,023,074	9,406,425
Depreciation on property, plant and equipment (Note 20(a))	3,726,411	3,495,415
Amortisation of intangible assets - software (Note 21(a))	180,694	149,249
Amortisation of prepaid operating lease (Note 23(a))	226	816
Auditor's remuneration	43,822	39,599
(b) Company		
Employee benefits expense (Note 11 (b))	1,438,488	1,650,417
Write-off of loan receivable from subsidiary (SBL) (Note 18)	-	4,256,282
Write-off of loan receivable from subsidiary (EABSS)	-	1,751,000
Depreciation on property and equipment (Note 20(b))	47,976	47,393
Amortisation of intangible assets - software (Note 21(b))	83,288	80,602
Amortisation of prepaid operating lease (Note 23(b))	14	59
Auditor's remuneration	15,405	11,307

Notes (Continued)

11 Employee benefits expense

a) Group

The following items are included within employee benefits expense:

	2019 Kshs '000	2018 Kshs '000
Salaries and wages	7,866,304	6,280,515
Defined contribution scheme	456,617	449,661
National Social Security Fund	147,645	118,475
Share based payments	11,600	14,584
Employee share ownership plan of the parent company(*)	108,248	79,444
Other staff costs	2,432,660	2,463,746
	11,023,074	9,406,425

The average number of employees during the year was as follows:

	30 June 2019	30 June 2018
Production	787	823
Sales and distribution	382	351
Management and administration	382	417
	1,551	1,591

(b) Company

The following items are included within employee benefits expense:

	2019 Kshs '000	2018 Kshs '000
Salaries and wages	566,479	880,374
Defined contribution scheme	93,639	72,623
National Social Security Fund	24,538	23,588
Share based payments	11,600	14,584
Employee share ownership plan of the parent company(*)	52,536	47,343
Other staff costs	689,696	611,905
	1,438,488	1,650,417

The average number of employees during the year was as follows:

	30 June 2019	30 June 2018
Management and administration	187	217
	187	217

(*) Some of the senior executives of the Group participate in the share ownership schemes linked to the share price of Diageo plc shares and administered by Diageo plc. The schemes are of various categories. The costs associated with these schemes are recharged to the Company and accounted for as part of staff costs.

Notes (Continued)

12 Finance income/(costs)

	2019	2018
(a) Group	Kshs '000	Kshs '000
Finance income		
Interest income	107,567	81,949
Other finance income	13,034	-
	120,601	81,949
Finance costs		
Interest expense	(2,953,889)	(3,284,208)
Other finance costs	(538,688)	(156,859)
	(3,492,577)	(3,441,067)
(b) Company		
Finance income		
Interest income	2,070,883	1,584,653
	2,070,883	1,584,653
Finance costs		
Interest expense	(4,163,332)	(3,749,012)
Other finance costs	(538,689)	(132,851)
	(4,702,021)	(3,881,863)

13 Income tax expense

(a) Group	2019	2018
	Kshs '000	Kshs '000
i) Income tax expense		
Current income tax		
- Current year charge	3,238,540	3,423,241
- Underprovision of tax in prior years	3,007	125,196
Current income tax charge	3,241,547	3,548,437
Deferred income tax (Note 19)		
- Current year charge	3,133,644	901,377
- (Over)/under provision in prior years	(75,671)	36,441
Deferred income tax charge	3,057,973	937,818
Total income tax expense	6,299,520	4,486,255

Notes (Continued)

13 Income tax expense (continued)

(a) Group (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019	2018
	Kshs '000	Kshs '000
Profit before income tax	17,814,650	11,741,810
Tax calculated at the statutory income tax rate of 30% (2018 - 30%)	5,344,395	3,522,543
Tax effects of:		
Expenses not deductible for tax purposes	1,027,789	802,075
- Underprovision of tax in prior years	3,007	125,196
- Under / (Over) provision in prior years	(75,671)	36,441
Income tax expense	6,299,520	4,486,255

(b) Company

Income tax expense

Current income tax:

Current year charge	269,161	-
Over provision of income tax in prior years	(43,703)	(297,145)
Current income tax expense	225,458	(297,145)

Deferred income tax:

Current year charge	218,394	672,313
Underprovision of deferred income tax in prior years	32	25,805
Deferred income tax charge (Note 19 (b))	218,426	698,118

Total tax expense	443,884	400,973
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The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019	2018
	Kshs '000	Kshs '000
Profit before income tax	7,409,683	2,460,326
Tax calculated at the statutory income tax rate of 30% (2018 - 30%)	2,222,905	738,098
Tax effects of:		
-Non-taxable income	(2,516,088)	(2,339,644)
-Expenses not deductible for tax purposes	780,738	2,273,859
-Underprovision of deferred income tax in prior year	32	25,805
-Overprovision of current income tax in prior year	(43,703)	(297,145)
Income tax expense	443,884	400,973

Notes (Continued)

14 Dividends

A final dividend in respect of the year ended 30 June 2019 of Kshs 6.0 (2018: Kshs 5.5 per share) amounting to a total of Kshs 4,744,646,000 (2018: Kshs 4,349,259,000) has been proposed.

During the year an interim dividend of Kshs 2.5 per share (2018: Kshs 2.0 per share) amounting to a total of Kshs 1,976,935,000 (2018: 1,581,548,000) was paid. The total dividend for the year is therefore Kshs 8.5 per share (2018: Kshs 7.5) amounting to a total of Kshs 6,721,581,000 (2018: 5,930,807,000).

Payment of dividends is subject to withholding tax at a rate of 0%, 5% and 10% depending on the residence and the percentage shareholding of the respective shareholders.

The following is the movement in dividends during the year:

Group and Company	Group		Company	
	2019 Kshs '000	2018 Kshs '000	2019 Kshs '000	2018 Kshs '000
At 1 July	562,611	487,109	562,611	487,109
Dividend declared during the year	7,459,417	6,773,625	6,326,194	5,930,807
Dividends paid	(7,431,405)	(6,698,123)	(6,298,182)	(5,855,305)
At 30 June	590,623	562,611	590,623	562,611

15 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share at 30 June 2019 was based on profit attributable to ordinary shareholders of Kshs 8,877,789,000 (2018: Kshs 5,683,764,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2019 of 790,774,356 (2018: 790,774,356). The basic and diluted earnings per share are the same as there is no dilutive effect.

	2019 Kshs '000	2018 Kshs '000
Profit attributable to ordinary shareholders	8,877,789	5,683,764
Weighted average number of ordinary shares		
Issued and paid shares (Note 16)	790,774,356	790,774,356
Basic and diluted earnings per share (Kshs per share)	11.23	7.19

Notes (Continued)

16 Share capital

	Number of shares	Ordinary shares Kshs'000	Share premium Kshs'000
Issued and fully paid			
Balance as at 1 July 2017, 30 June 2018 and 30 June 2019	790,774,356	1,581,547	1,691,151

The total authorised number of ordinary shares is 1,000,000,000 with a par value of Kshs 2.00 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All shares rank equally with regard to the Company's residual assets.

17 Other reserves

(a) Employee share based payment reserves

The Company operates two equity settled employee share ownership plans (ESOPs) as follows:

- a) **Executive Share Option Plan (ESOP)** – Under the plan, an employee is given an option to buy units at a future date but at a fixed price, which is set at the time when the option is granted. The vesting period for the shares is three years after which an employee can exercise the option within seven years. There are no performance conditions attached to this share plan.
- b) **Employees Share Save Scheme (ESSS)** – This plan enables the eligible employee to save a fixed amount of money over a three-year period. If an employee joins the plan, he or she is given an option to buy units at a future date at a fixed price set at the grant date. The grant price is fixed at 80% of the market price at grant date. The vesting period for the shares is three years after which an employee can exercise the option within seven years. There are no performance conditions attached to this share plan.

The reserves that arise from employee share based payments are as follows:

(i) Treasury shares reserve

Treasury shares reserve represent the cost of the shares held by the Company's Employee Share Ownership Plan at the end of year. The movement in the treasury shares reserve in the year is as follows:

	30 June 2019		30 June 2018	
	Number of shares	Ksh'000	Number of shares	Ksh'000
At start of year	2,478,146	507,275	2,447,083	498,003
Movement in the year:				
Purchase of shares	552,781	109,896	46,020	11,773
Issue of shares upon exercise of options	(56,816)	(8,174)	(14,957)	(2,501)
Total movement in the year	495,965	101,722	31,063	9,272
At end of year	2,974,111	608,997	2,478,146	507,275

Notes (Continued)

17 Other reserves (continued)

(a) Employee share based payment reserve (continued)

(ii) Share based payment reserve

The share based payment reserve represents the charge to the profit or loss account in respect of share options granted to employees. The allocated shares for the employee share based payments are held by the East African Breweries Employee Share Ownership Plan.

Share based payments are measured at fair value at the grant date, which is expensed over the period of vesting. The fair value of each option granted is estimated at the date of grant using Black Scholes option pricing model. The assumptions supporting inputs into the model for options granted during the period are as follows:

	2018 series	2017 series	2016 series
Grant date share price	187	250	277
Exercise price			
-ESOP	187	250	277
-ESSS	150	196	224
Expected volatility	20.01%	20.01%	20.01%
Dividend yield	3.6%	3.6%	3.6%
Forfeiture rate	3.9%	3.9%	3.9%
Option life	5 years	5 years	5 years

The assumptions above were determined based on the historical trends.

Share based payment reserves are not distributable.

(b) Currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currency to the Group's presentation currency (Kenya shillings) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal or partial disposal of a foreign operation. Translation reserves are not distributable.

Notes (Continued)

18 Non-controlling interests

(a) Subsidiaries with material non-controlling interests

The following table summarises the information relating to the Group's subsidiaries that have material non-controlling interests.

At 30 June 2019	UDV (Kenya) Limited Kshs'000	Serengeti Breweries Limited Kshs'000	Other subsidiaries Kshs'000	Total Kshs'000
Non-controlling interest percentage	53.68%	27.5%	1% - 1.8%	
Non-current assets	2,115,494	9,317,615	7,249,261	
Currents assets	12,169,809	3,722,387	4,451,704	
Non-current liabilities	(322,714)	-	(4,144,926)	
Current liabilities	(4,841,626)	(3,672,061)	(6,013,857)	
Net assets	9,120,963	9,367,941	1,542,182	
Carrying amount of non-controlling interest	4,896,133	2,574,310	39,929	7,510,372
Net sales	18,133,705	9,737,066	12,462,592	
Profit after tax	4,431,134	891,035	778,164	
Total comprehensive income	4,431,134	891,035	778,164	
In respect of non-controlling interest	2,378,633	244,856	13,853	2,637,342
Cash generated from operating activities	3,025,036	2,760,575	2,474,284	
Cash used in investment activities	(122,387)	(1,506,733)	(2,101,244)	
Cash used in financing activities	(1,962,599)	(290,030)	439,120	
Net increase in cash and cash equivalents	940,050	963,812	812,160	

At 30 June 2018	UDV (Kenya) Limited Kshs'000	Serengeti Breweries Limited Kshs'000	Other subsidiaries Kshs'000	Total Kshs'000
Non-controlling interest percentage	53.68%	27.5%	1% - 1.8%	
Non-current assets	2,230,063	8,550,389	5,458,464	
Currents assets	9,226,109	3,280,227	3,681,980	
Non-current liabilities	(340,000)	-	(4,025,699)	
Current liabilities	(4,463,747)	(3,166,775)	(4,833,729)	
Net assets/(liabilities)	6,652,425	8,663,841	281,016	-
Carrying amount of non-controlling interest	3,571,022	2,380,824	19,245	5,971,091
Net sales	15,637,384	8,189,944	11,919,899	
Profit after tax	2,857,183	112,314	2,592	
Total comprehensive income	2,857,183	112,314	2,592	
In respect on non-controlling interest	1,533,736	30,864	7,191	1,571,791
Cash generated from operating activities	3,509,850	1,512,898	2,275,094	
Cash used in investment activities	(525,874)	(815,600)	(1,287,210)	
Cash used in financing activities	(1,570,079)	(199,500)	(24,451)	
Net increase in cash and cash equivalents	1,413,897	497,798	963,433	

Notes (Continued)

18 Non-controlling interest (continued)

(b) Transactions with non- controlling interests

During the year ended 30 June 2018, the Company entered into an agreement with the non-controlling shareholders of its subsidiary Serengeti Breweries Limited (SBL), to convert all its outstanding loans receivable of Kshs 15,306,177,000 to the subsidiary into equity, without proportionate capital contribution by the non-controlling shareholders. Under the terms of the arrangement, the non-controlling shareholders of SBL would pay the Company Tanzania Shillings 70 billion (Kshs 3,243,744,000) from 50% of their dividends received from SBL. The transaction therefore resulted in a temporary increase in the effective economic interest in the subsidiary from 51% to 72.5%. EABL's shareholding in SBL remained unchanged. Upon repayment of the liability through dividends, the effective economic interest of EABL in SBL would revert back to the original 51% status. During the year ended 30 June 2019, Tanzania shillings 367 million (Kshs 16 million) was received as partial repayment of the loan.

The impact of the transaction above was charged to equity, being a transaction between shareholders, and is as disclosed here below:

	2018
	Kshs'000
Loans receivable converted to equity (Note 25)	11,049,895
Loans receivable written off in the Company accounts (Note 9)	4,256,282
	<u>15,306,177</u>
Change in share of net assets of subsidiary:	
Share of net liabilities pre-conversion	(3,395,842)
Share of net assets post conversion	6,216,196
	<u>9,612,038</u>
Difference arising on transaction with non-controlling interests	<u>5,694,139</u>

19 Deferred income tax

Deferred income tax is calculated using the enacted domestic tax rate of 30% (2018 – 30%). The movement on the deferred income tax account is as follows:

	2019	2018
(a) Group	Kshs'000	Kshs'000
At start of year	2,538,119	1,791,410
Charge to profit or loss	3,133,644	901,377
(Over)/under provision of deferred income tax in prior year	(75,671)	36,441
Effect of change in exchange rates	(40,536)	(191,109)
Total deferred income tax movement	<u>3,017,437</u>	<u>746,709</u>
At end of year	<u>5,555,556</u>	<u>2,538,119</u>
Analysed as follows:		
Deferred income tax liabilities	6,136,317	3,264,233
Deferred income tax assets	(580,761)	(726,114)
At end of year	<u>5,555,556</u>	<u>2,538,119</u>

Notes (Continued)

19 Deferred income tax (continued)

	2019 Kshs'000	2018 Kshs'000
(b) Company		
At start of year	(726,114)	(1,424,232)
Charge to profit or loss	218,394	672,313
Under provision of deferred income tax in prior year	32	25,805
Total deferred income tax movement	218,426	698,118
At end of year	(507,688)	(726,114)

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit or loss are attributable to the following items:

(a) Group

Year ended 30 June 2019	At 1 July 2018 Kshs'000	Prior year (over)/under provision Kshs'000	Charged/ (credited) to profit or loss Kshs'000	Effects of exchange rate changes Kshs'000	At 30 June 2019 Kshs'000
Deferred income tax liabilities					
Property, plant and equipment	5,661,354	(12,270)	2,264,754	73,930	7,987,768
Unrealised exchange gains/(losses)	228,560	-	115,119	(1,987)	341,692
Deferred income tax liabilities	5,889,914	(12,270)	2,379,873	71,943	8,329,460
Deferred income tax assets					
Property, plant and equipment	(281,405)	(20,881)	(8,474)	(1,777)	(312,537)
Unrealised exchange gains/(losses)	(184,784)	(6,155)	525,248	6,898	341,207
Tax losses carried forward	(1,943,812)	32	378,306	(12,694)	(1,578,168)
Other deductible differences	(941,794)	(36,397)	(141,309)	(104,906)	(1,224,406)
Deferred income tax assets	(3,351,795)	(63,401)	753,771	(112,479)	(2,773,904)
Net deferred income tax	2,538,119	(75,671)	3,133,644	(40,536)	5,555,556

Year ended 30 June 2018	At 1 July 2017 Kshs'000	Prior year (over)/under provision Kshs'000	Charged/ (credited) to profit or loss Kshs'000	Effects of exchange rate changes Kshs'000	At 30 June 2018 Kshs'000
Deferred income tax liabilities					
Property, plant and equipment	4,869,229	102,798	868,696	(179,369)	5,661,354
Unrealised exchange gains/(losses)	226,759	80,412	(81,475)	2,864	228,560
Deferred income tax liabilities	5,095,988	183,210	787,221	(176,505)	5,889,914
Deferred income tax assets					
Property, plant and equipment	(78,520)	(168,574)	(36,003)	1,692	(281,405)
Unrealised exchange gains/losses	(93,398)	(55,366)	(36,420)	400	(184,784)
Tax losses carried forward	(2,803,396)	88,741	802,294	(31,451)	(1,943,812)
Other deductible differences	(329,264)	(11,570)	(615,715)	14,755	(941,794)
Deferred income tax assets	(3,304,578)	(146,769)	114,156	(14,604)	(3,351,795)
Net deferred income tax	1,791,410	36,441	901,377	(191,109)	2,538,119

Notes (Continued)

19 Deferred income tax (continued)

(b) Company

Year ended 30 June 2019:	At 1 July 2018 Kshs'000	Prior year (over)/under provision Kshs'000	Charged/ (credited) to profit or loss Kshs'000	At 30 June 2019 Kshs'000
Deferred income tax liabilities				
Property, plant and equipment	(37,697)	-	(6,764)	(44,461)
Unrealised exchange gains	59,834	-	(20,713)	39,121
Deferred income tax liabilities	22,137	-	(27,477)	(5,340)
Deferred income tax assets				
Unrealised exchange losses	(61,249)	-	62,123	874
Tax losses	(391,323)	32	391,291	-
Other deductible differences	(295,679)	-	(207,543)	(503,222)
Deferred income tax assets	(748,251)	32	245,871	(502,348)
Net deferred income tax	(726,114)	32	218,394	(507,688)

Year ended 30 June 2018	At 1 July 2017 Kshs'000	Prior year (over)/under provision Kshs'000	Charged/ (credited) to profit or loss Kshs'000	At 30 June 2018 Kshs'000
Deferred income tax liabilities				
Property, plant and equipment	16,287	(53,485)	(499)	(37,697)
Unrealised exchange gains	12,060	2,120	45,654	59,834
Deferred income tax liabilities	28,347	(51,365)	45,155	22,137
Deferred income tax assets				
Unrealised exchange losses	(664)	-	(60,585)	(61,249)
Tax losses carried forward	(1,160,284)	88,741	680,220	(391,323)
Other deductible differences	(291,631)	(11,571)	7,523	(295,679)
Deferred income tax assets	(1,452,579)	77,170	627,158	(748,251)
Net deferred income tax	(1,424,232)	25,805	672,313	(726,114)

Notes (Continued)

20 Property, plant and equipment

(a) Group	Freehold property Kshs '000	Leasehold buildings Kshs '000	Plant & equipment Kshs '000	Returnable packaging Kshs '000	Capital work in progress Kshs '000	Total Kshs '000
Year ended 30 June 2019						
Cost						
1 July 2018	4,987,211	2,975,610	40,394,764	13,630,309	11,831,797	73,819,691
Additions	-	46,694	720,768	1,563,812	9,345,690	11,676,964
Transfers from capital work in progress	91,524	2,670,269	9,748,924	1,137,516	(13,648,233)	-
Disposals	-	-	(422,535)	-	-	(422,535)
Transfer to intangible assets (Note 22)	-	-	-	-	(262,698)	(262,698)
Assets written off	-	-	-	(1,713,075)	-	(1,713,075)
Effect of exchange rate changes	5,863	50,768	489,348	120,697	67,324	734,000
At 30 June 2019	5,084,598	5,743,341	50,931,269	14,739,259	7,333,880	83,832,347
Depreciation and impairment						
At 1 July 2018	1,068,031	925,211	19,062,631	7,399,974	-	28,455,847
Charge for the year	106,984	75,431	2,112,960	1,431,036	-	3,726,411
Disposals	-	-	(386,922)	-	-	(386,922)
Assets written off	-	-	-	(1,276,037)	-	(1,276,037)
Effect of exchange rate changes	3,433	13,441	186,121	72,242	-	275,237
At 30 June 2019	1,178,448	1,014,083	20,974,790	7,627,215	-	30,794,536
Carrying amount at 30 June 2019	3,906,150	4,729,258	29,956,479	7,112,044	7,333,880	53,037,811

There are no assets pledged by the Group to secure liabilities other than as disclosed under Note 33.

The capital work in progress mainly relates to the Kisumu Brewery in Kenya in finalisation, capacity expansion in Tanzania and beer and spirits upgrade in Uganda.

Included under additions to capital work in progress are borrowing costs of Kshs 340,639,000 incurred on the long term loans that were received during the year to finance the construction of the new brewery in Kisumu. The weighted average capitalisation rate on funds borrowed is 7%.

Notes (Continued)

20 Property, plant and equipment (continued)

(a) Group (Continued)

Year ended 30 June 2018	Freehold property Kshs '000	Leasehold buildings Kshs '000	Plant & equipment Kshs '000	Returnable packaging Kshs '000	Capital work in progress Kshs '000	Total Kshs '000
Cost						
1 July 2017	4,611,690	3,047,596	38,439,923	13,829,816	4,553,792	64,482,817
Additions	177,011	37,509	2,075,654	1,370,384	9,368,176	13,028,734
Transfers from work in progress	258,557	41,103	1,011,850	684,444	(1,995,954)	-
Disposals	(50,188)	-	(40,128)	(153,786)	-	(244,102)
Transfer to intangible assets (Note 22)	-	-	-	-	(41,013)	(41,013)
Assets written off	-	-	-	(1,807,349)	-	(1,807,349)
Effect of exchange rate changes	(9,859)	(150,598)	(1,092,307)	(293,200)	(53,204)	(1,599,396)
At 30 June 2018	4,987,211	2,975,610	40,394,992	13,630,309	11,831,797	73,819,691
Depreciation and impairment						
At 1 July 2017	1,003,217	894,389	17,649,194	7,618,571	-	27,165,371
Charge for the year	88,707	67,579	1,845,074	1,494,055	-	3,495,415
Disposals	(18,130)	-	(24,419)	(130,676)	-	(173,225)
Assets written off	-	-	-	(1,402,943)	-	(1,402,943)
Effect of exchange rate changes	(5,763)	(36,757)	(407,218)	(179,033)	-	(628,771)
At 30 June 2018	1,068,031	925,211	19,062,631	7,399,974	-	28,455,847
Carrying amount at 30 June 2018	3,919,180	2,050,399	21,332,361	6,230,335	11,831,797	45,363,844

There are no assets pledged by the Group to secure liabilities other than as disclosed under Note 33.

The capital work in progress mainly relates to construction of a brewery in Kisumu, Kenya.

Included under additions to capital work in progress are borrowing costs of Kshs 299,944,000 incurred on the long term loan that was received during the year to finance the construction of the new brewery in Kisumu. The weighted average capitalization rate on funds borrowed is 10%.

Notes (Continued)

20 Property and equipment (continued)

(b) Company	Freehold property Kshs '000	Leasehold buildings Kshs '000	Equipment Kshs '000	Capital work in progress Kshs '000	Total Kshs '000
Year ended 30 June 2019					
1 July 2018	132,228	32,127	330,717	135,811	630,883
Additions	-	-	1,796	324,348	326,144
Disposals	-	-	(11,504)	-	(11,504)
Transfers from capital work in progress	871	-	12,342	(13,213)	-
Transfers to Group companies	(3,500)	(17,230)	-	(98,306)	(119,037)
At 30 June 2019	129,599	14,896	333,351	348,640	826,486
Depreciation and impairment					
At 1 July 2018	4,358	5,957	238,180	-	248,495
Disposals	-	-	(10,242)	-	(10,242)
Transfers to Group companies	(2,811)	(6,103)	-	-	(8,914)
Charge for the year	711	1,023	46,242	-	47,976
At 30 June 2019	2,258	877	274,180	-	277,315
Carrying amount at 30 June 2019	127,341	14,019	59,171	348,640	549,171

There are no assets pledged by the Company to secure liabilities other than as disclosed under Note 33.

Notes (Continued)

20 Property and equipment (continued)

(b) Company - continued	Freehold property Kshs '000	Leasehold buildings Kshs '000	Equipment Kshs '000	Capital work in progress Kshs '000	Total Kshs '000
Year ended 30 June 2018					
Cost					
1 July 2017	132,228	41,490	318,158	104,146	596,022
Additions	-	-	9,132	62,527	71,659
Transfers from work in progress	-	25,577	3,427	(29,004)	-
Transfers to intangible assets (Note 22(b))	-	-	-	(1,858)	(1,858)
Transfers to Group companies	-	(34,940)	-	-	(34,940)
At 30 June 2018	132,228	32,127	330,717	135,811	630,883
Depreciation and impairment					
At 1 July 2017	3,647	15,213	192,738	-	211,598
Transfers to Group companies	-	(10,496)	-	-	(10,496)
Charge for the year	711	1,240	45,442	-	47,393
At 30 June 2018	4,358	5,957	238,180	-	248,495
Carrying amount as at 30 June 2018	127,870	26,170	92,537	135,811	382,388

There are no assets pledged by the Company to secure liabilities other than as disclosed under Note 33.

Notes (Continued)

21 Intangible assets - software

(a) Group	2019 Kshs'000	2018 Kshs'000
Cost		
At 1 July	1,943,999	1,927,111
Additions	91,614	2,627
Transfer from property plant and equipment (Note 21(a))	262,698	41,013
Effect of exchange rate changes	11,618	(26,752)
At end of the year	2,309,929	1,943,999
Amortisation		
At 1 July	1,502,402	1,364,297
Charge for the year	180,694	149,249
Effect of exchange rate changes	5,757	(11,144)
At end of the year	1,688,853	1,502,402
Net book value	621,076	441,597
(b) Company	2019 Kshs'000	2018 Kshs'000
Cost		
At 1 July	1,485,409	1,480,923
Additions	2,163	2,627
Transfer from property and equipment (Note 21(b))	-	1,858
At end of the year	1,487,572	1,485,408
Amortisation		
At 1 July	1,278,981	1,198,379
Charge for the year	83,288	80,602
At end of the year	1,362,269	1,278,981
Net book value	125,303	206,427

Transfer of assets from property and equipment to intangible assets relate to costs incurred in the acquisition of software.

Notes (Continued)

22 Intangible assets - goodwill and brand

(a) Goodwill

	Carrying amount at 1 July Kshs'000	Effect of exchange rate changes Kshs'000	Carrying amount Kshs'000
Year ended 30 June 2019			
Serengeti Breweries Limited (SBL)	2,118,560	18,620	2,137,180
UDV (Kenya) Limited (UDV)	415,496	-	415,496
International Distillers (Uganda) Limited (IDU)	178,508	11,817	190,325
Total	2,712,564	30,437	2,743,001

Year ended 30 June 2018

Serengeti Breweries Limited (SBL)	2,225,442	(106,882)	2,118,560
UDV (Kenya) Limited (UDV)	415,496	-	415,496
International Distillers (Uganda) Limited (IDU)	198,381	(19,873)	178,508
Total	2,839,319	(126,755)	2,712,564

Goodwill represents the excess of cost of acquisitions over the fair value of identifiable assets and liabilities of the respective subsidiaries at acquisition date. For each of the subsidiaries, the goodwill was recognised due to the expected synergies arising from the business combination as at the acquisition date.

(b) Brand

	2019 Kshs'000	2018 Kshs'000
At start of year	459,394	482,562
Effect of exchange rate changes	4,036	(23,168)
At end of year	463,430	459,394

The balance represents the purchase price allocation to the "Premium Serengeti Lager" brand at acquisition of Serengeti Breweries Limited.

Notes (Continued)

22 Intangible assets - goodwill and brand (continued)

(c) Impairment testing for cash-generating units containing goodwill and brand

(i) Impairment testing methodology

For the purposes of impairment testing, goodwill is allocated to the Group's operating segments which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of an operating segment is determined based on a detailed 5-year model that has been extrapolated in perpetuity by applying the long term growth rate of the country. Profit has been amended with working capital and capital expenditure requirements. The net cashflows have been discounted using the country-specific pre-tax weighted average cost of capital (WACC). These calculations use cash flow projections approved by management covering a 5-year period. Cash flows beyond the five-year period are extrapolated using estimated terminal growth rates.

(ii) Key assumptions used for value in use calculations

	Tanzania		Kenya		Uganda	
	2019	2018	2019	2018	2019	2018
Terminal growth rate ¹	5%	5%	5%	5%	5%	5%
WACC rate ²	18%	18%	13%	13%	13%	14%

1. Weighted average growth rate used to extrapolate cash flows beyond the projected period.
2. Pre-tax discount rate applied to the cash flow projections.

These assumptions have been used for the analysis of each operating segment. Management determined forecast EBITDA margin based on past performance and its expectations for market developments. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(iii) Results of impairment testing on the carrying amount of goodwill

Goodwill

Based on the above assumptions, the recoverable value of the relevant operating segment exceeded the carrying net asset amount (including the goodwill) for SBL, UDV and IDU at 30 June 2019. As a result, the Group has not recognised an impairment charge (2018: Nil).

Brand

Based on the above assumptions, the recoverable value of the brand exceeded the carrying value at 30 June 2019. As a result, the Group has not recognised an impairment charge. (2018: Nil).

Notes (Continued)

22 Intangible assets - goodwill and brand (continued)

(c) Impairment testing for cash-generating units containing goodwill and brand (continued)

(iv) Significant estimates : Impact of possible changes in key assumptions

There were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment charge for SBL, UDV and IDU.

23 Prepaid operating lease rentals

Leases of land have been classified as operating leases.

	At 30 June	
(a) Group	2019	2018
	Kshs'000	Kshs'000
Cost		
At 1 July	10,341	21,743
Disposals	-	(11,328)
Effect of exchange rate changes	44	(74)
At end of year	10,385	10,341
Amortisation and impairment		
At 1 July	2,990	6,751
Charge for the year	226	816
Disposals	-	(4,575)
Effect of exchange rate changes	2	(2)
At end of year	3,218	2,990
Net book value	7,167	7,351
(b) Company	2019	2018
	Kshs'000	Kshs'000
Cost:		
At 1 July	1,380	2,250
Transfers to Group companies	(1,380)	(870)
At end of year	-	1,380
Amortisation:		
At 1 July	736	1,126
Charge for the year	14	59
Transfers to Group companies	(750)	(449)
At end of year	-	736
Net book value	-	644

Notes (Continued)

24 Investments in subsidiaries

	Country of incorporation	Effective ownership interest	Book value at 30 June 2019 Kshs'000	2018 Kshs'000
Kenya Breweries Limited	Kenya	100%	22,377,809	22,377,809
Serengeti Breweries Limited	Tanzania	72.5%	15,992,891	15,992,891
Uganda Breweries Limited	Uganda	98%	687,648	687,648
UDV (Kenya) Limited	Kenya	46%	589,410	589,410
International Distillers Uganda Limited	Uganda	100%	300,000	300,000
EABL Tanzania Limited	Tanzania	100%	5,610	5,610
East African Breweries (Rwanda) Limited	Rwanda	100%	1,337	1,337
East African Beverages (South Sudan) Limited	South Sudan	99%	299	299
Allsopps (EA) Sales Limited	Kenya	100%	3	3
EABL International Limited	Kenya	100%	2	150,000
Salopia Limited	Kenya	100%	-	200
East African Maltings (Kenya) Limited	Kenya	100%	-	-
East African Maltings (Uganda) Limited	Uganda	100%	-	-
Net book amount			39,955,009	40,105,207

Movement in investment in subsidiaries

The movement in the carrying amount of the total investment in subsidiaries figure is as reflected below:

Year ended 30 June 2019

	Kshs'000
At 1 July 2018	40,105,207
EABL International Limited	
Capital reduction	(149,998)
Other subsidiaries	
Derecognition upon wind-up	(200)
At 30 June 2019	39,955,009

Year ended 30 June 2018

	Kshs'000
At 1 July 2017	29,053,977
Serengeti Breweries Limited (SBL)	
Purchase of additional non-controlling interests	
- Investment loan converted to equity Investment	15,306,177
-Capital contribution on behalf of non-controlling interests	(4,256,284)
East African Breweries (Rwanda) Limited	
Investment in the subsidiary	1,337
At 30 June 2018	40,105,207

Notes (Continued)

24 Investments in subsidiaries (continued)

Movement in investment in subsidiaries (continued)

The details of the movement in investment in subsidiaries is as disclosed below:

(a) Serengeti Breweries Limited (SBL)

As disclosed in Note 18, in the year ended 30 June 2018, the Company increased its effective interest in SBL by conversion of loans receivable amounting to Kshs 15.3 billion into equity. The effective interest increased from 51% to 72.5% while the legal shareholding remained at 51%.

An impairment assessment of the carrying amount of the investment in SBL at Company level was performed at the end of the year using the value-in-use model. The key assumptions used in the value-in-use model are shown in Note 22. Based on the assumptions, the carrying amount of the investment was lower than the recoverable amount.

Significant estimate: Impact of possible changes in key assumptions

If the budgeted cash flows used in the value-in-use calculation for SBL had been 10% lower than management's estimates at 30 June 2019, the Company would not have recognised any impairment against the carrying amount of the investment in subsidiary (2018: impairment loss of Kshs 86,659,000).

If the pre-tax discount rate applied to the cash flow projections for SBL had been 1% higher than management's estimates (16.2% instead of 15.2%), the Company would not have to recognise an impairment against the carrying value of the investment in subsidiary (2018: Nil).

If the terminal growth rate applied to the cash flow projections for SBL had been 1.5% lower than management's estimates (5.0% instead of 6.5%), the Company would not have had to recognise any impairment against the carrying value of the investment in subsidiary (2018: impairment loss of Kshs 514,637,000).

(b) EABL International Limited (EABLi)

During the year, EABLi undertook capital reduction of Kshs 2.4 billion. The capital reduced by EABLi was offset against intercompany receivables from the Company. As a result, there was no actual movement of assets from EABLi to the Company. Upon the conclusion of capital reduction exercise by EABLi, the Company derecognized the carrying amount of investment in EABLi of Kshs 150 million, thereby recognising a net income of Kshs 2.3 billion.

(c) East African Breweries (Rwanda) Limited:

During the year ended 30 June 2018, the Company increased its investment in East African Breweries (Rwanda) Limited, a Company that was incorporated to perform marketing activities in Rwanda.

(d) Other subsidiaries:

The Company has derecognised its investment in Salopia Limited, Kenya Liquor Distributors Limited, Harp Distributors Limited and Kenya Distillers Limited upon successful wind up and deregistration of the companies.

Notes (Continued)

25 Other financial assets (Group and Company)

	2019 Kshs '000	2018 Kshs '000
20% investment in Challenge Fund Limited who in turn have subscribed to 50% in Central Depository and Settlement Corporation Limited	10,000	10,000
At end of year	10,000	10,000

During the year, the investment in Challenge Fund Limited did not change. The carrying amount of the investment estimates its fair value.

26 Inventories

	2019 Kshs'000	2018 Kshs'000
(a) Group		
Raw materials and consumables	4,343,198	4,835,788
Work in progress	604,058	721,933
Finished goods	2,253,687	1,930,324
Goods in transit	167,069	394,561
	7,368,012	7,882,606

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to Kshs 22,514,463,000 (2018: Kshs 21,639,676,000).

	2019 Kshs'000	2018 Kshs'000
(b) Company		
Finished goods	-	38,906

27 Trade and other receivables
(a) Group

	2019 Kshs'000	2018 Kshs'000
Trade receivables	4,928,580	5,371,289
Less: provision for expected credit losses	(624,898)	(685,942)
	4,303,682	4,685,347
Other receivables	1,847,867	2,657,087
Less: provision for expected credit losses	(225,763)	(170,421)
Prepayments	2,079,441	423,502
Receivables from related companies (Note 34 (a) (iii))	217,767	350,966
	8,222,994	7,946,481

Movement in lifetime expected credit losses allowance

The following table shows the movement in lifetime expected credit losses that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

Notes (Continued)

27 Trade and other receivables (continued)

(a) Group (continued)

	2019	2018
	Kshs'000	Kshs'000
At 1 July	856,363	956,840
IFRS 9 transition adjustment (*)	105,455	-
Impairment charge on trade receivables (Note 9(a))	134,361	137,650
Write offs	(245,518)	(238,127)
At 30 June	850,661	856,363

(*) The additional credit loss allowance of Kshs 105,455,000 as at 1 July 2018 was recognised against the Group's retained earnings, net of the related deferred tax impact of Kshs 31,637,000, resulting in a net decrease in retained earnings of Kshs 73,819,000.

(b) Company	2019	2018
	Kshs'000	Kshs'000
Trade receivables	-	512,080
Receivables from related companies (Note 34(b))	831,475	2,925,420
Other receivables	230,049	383,818
Prepayments	88,950	4,437
	1,150,474	3,825,755

28 Trade and other payables

(a) Group	2019	2018
	Kshs'000	Kshs'000
Trade payables	6,135,927	5,781,983
Other payables and accrued expenses	20,465,246	17,694,450
Payables to related parties (Note 34 (a))	1,263,019	1,152,866
	27,864,192	24,629,299

(b) Company		
Trade payables	108,252	114,640
Payables to related parties (Note 34(b))	15,263,832	16,943,244
Other payables and accrued expenses	2,876,738	2,555,737
	18,248,822	19,613,621

29 Contingent liabilities

The Group has operations in several countries and is subject to a number of legal, customs duty, excise duty and other tax claims incidental to these operations, the outcome of which cannot at present be foreseen and the possible loss or range of loss of which cannot at present be meaningfully quantified. In particular, the Group is subject to certain claims in the markets that the Group operates in that challenge its interpretation of various tax regulations and the application thereof.

Based on their own judgement and professional advice received from legal, tax and other advisors, the Directors believe that the provision made for all these claims sufficiently covers the expected losses arising from them. For most of these cases, the likelihood that the Group will suffer significant charges or payments is remote; however in a few cases the Directors consider it possible but not probable that such charges will be incurred.

Notes (Continued)

29 Contingent liabilities (continued)

The Group continues to vigorously defend its position. The Directors continue to monitor the development of these matters and to the extent those developments may have a major impact on its financial position, or may significantly affect its ability to meet its commitments, the Group shall disclose those developments in line with its listing obligations as required by relevant regulations.

30 Commitments

(i) Capital commitments - Group

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	2019 Kshs'000	2018 Kshs'000
Contracted but not provided for	3,331,053	5,626,927
Authorised but not contracted for	4,072,636	4,573,991
	7,403,689	10,200,918

ii) Operating lease commitments

(a) Group leases as lessee

The Group has entered into operating lease agreements for leasing of commercial and non-commercial vehicles and point-of-sale refrigerators. Lease payments cover principal rentals, maintenance fees, management costs and insurance costs. Future minimum lease payments under these operating leases are as follows:

	2019 Kshs'000	2018 Kshs'000
Not later than 1 year	102,116	540,785
Later than 1 year and not later than 5 years	1,425,204	94,157
	1,527,320	634,942

During the year ended 30 June 2019, Kshs 582,389,000 was recognised as an expense through profit or loss in respect of the operating leases (2018: Kshs 638,636,000).

(b) Company leases as lessee

The Company has entered into operating lease agreements for leasing of printers and motor vehicles. Future minimum lease payments under these operating leases are as follows:

	2019 Kshs'000	2018 Kshs'000
Not later than 1 year	41,069	70,875
Later than 1 year and not later than 5 years	58,948	55,056
	100,017	125,931

During the year ended 30 June 2019, Kshs 48,005,658 was recognised as an expense through profit or loss in respect of the operating leases (2018: Kshs 89,804,000).

Notes (Continued)

31 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations:

Group	2019 Kshs'000	2018 Kshs'000
Profit before income tax	17,814,650	11,741,810
Adjusted for:		
Interest income (Note 12)	(120,601)	(81,949)
Interest expense (Note 12)	3,492,577	3,441,067
Depreciation (Note 20 (a))	3,726,411	3,495,415
Amortisation of intangible asset - software (Note 21 (a))	180,694	149,249
Amortisation of prepaid operating lease rentals (Note 23 (a))	226	816
Share based payments	11,600	14,584
Loss / (profit) on disposal of property, plant and equipment	26,478	(699,098)
Write off of property, plant and equipment	464,294	404,406
Cash generated from operations before working capital adjustments	25,596,329	18,466,300
Changes in working capital:		
-Trade and other receivables (Note 31(c))	(416,038)	86,961
-Inventories	276,315	(568,417)
-Trade and other payables (Note 31(c))	3,034,797	3,732,452
Cash generated from operations	28,491,403	21,717,296
Company		
Profit before income tax	7,409,683	2,460,326
Adjustments for:		
Interest income (Note 12(b))	(2,070,883)	(1,584,653)
Interest expense (Note 12(b))	4,702,021	3,881,863
Depreciation (Note 20 (b))	47,976	47,393
Amortisation of intangible asset - software (Note 21(b))	83,288	80,602
Amortisation of prepaid operating lease rentals (Note 23(b))	14	59
Share based payments	11,600	14,584
Dividend income	(6,131,586)	(7,798,813)
Loss on disposal of property and equipment	106	-
Release of prior year overprovision of current tax	-	329,693
Capital reduction by a subsidiary (Note 24(b))	(2,405,372)	-
Write off of loan receivable from subsidiary (Note 24)	-	4,256,282
Derecognition of Investment in subsidiaries (non cash)	150,200	-
Write off of investment loan	-	1,751,000
Cash generated from operations	1,797,047	3,438,336
Changes in working capital:		
-Trade and other receivables (Note 31(c))	2,352,453	150,470
-Inventory	38,906	(4,947)
-Trade and other payables (Note 31(c))	1,024,122	6,576,844
Cash generated from operations	5,212,528	10,232,649

Notes (Continued)

31 Cash generated from operations (continued)

(b) Cash and cash equivalents	2019	2018
	Kshs'000	Kshs'000
Group		
Cash and bank balances	12,468,585	3,588,370
Bank overdraft (Note 33(a))	-	(401,245)
	12,468,585	3,187,125
Company		
Cash and bank balances	9,020,367	1,685,800
Bank overdraft (Note 33(b))	-	(7,175)
	9,020,367	1,678,625
(c) Movement in working capital		
Group		
Movement in trade and other receivables		
Movement per statement of financial position	(276,513)	1,981,519
Proceeds from sale of leasehold property	(207,000)	(1,762,500)
Foreign currency translation differences	67,475	(132,058)
Net movement in receivables as per cash flow	(416,038)	86,961
Movement in trade and other payables		
Movement per statement of financial position	3,234,893	3,815,288
External interest payable	(19,279)	(11,650)
Foreign currency translation differences	(180,817)	(71,186)
Net movement in payables as per cash flow	3,034,797	3,732,452
Company		
Movement in receivables and prepayments		
Movement per statement of financial position	2,559,453	3,971,483
Proceeds on sale of leasehold property	(207,000)	(1,762,500)
Write off of investment loan (EABSS)	-	(1,751,000)
Conversion of debt to equity (SBL)	-	(15,306,176)
Investment in long term loan (KBL)	-	15,000,000
Investment in subsidiaries (EABL Rwanda)	-	(1,337)
Net movement in receivables as per cash flow	2,352,453	150,470
Movement in non cash items in current tax		
Release of prior year overprovision	-	329,693
Net movement in receivables as per cash flow	-	329,693
Movement in trade and other payables		
Movement per statement of financial position	(1,364,799)	6,587,662
External interest payable	(16,451)	(10,818)
Capital reduction by a subsidiary (Note 24(b))	2,405,372	-
Net movement in payables as per cash flow	1,024,122	6,576,844

Notes (Continued)

32 Derivative financial instruments

The amount represents the fair value of forward foreign exchange contracts held to manage foreign currency risk on the Euro denominated borrowings (see Note 33). These derivative financial instruments are measured at fair value through profit or loss.

	2019 Kshs'000	2018 Kshs'000
Derivative financial assets		
Foreign exchange forward contracts	179,678	-
Derivative financial liabilities		
Foreign exchange forward contracts	-	71,946

33 Borrowings

(a) Group	2019 Kshs'000	2018 Kshs'000
The borrowings are made up as follows:		
Non-current		
Bank loans	25,115,178	8,077,553
Medium term note	6,000,000	11,000,000
Related party loan	-	11,469,236
	31,115,178	30,546,789
Current		
Medium term note	5,000,000	-
Borrowings	204,566	118,667
	5,204,566	118,667
Bank overdraft	-	401,245
	5,204,566	519,912
	36,319,744	31,066,701

The carrying amounts of current borrowings approximate their fair value, as the impact of discounting is not material.

	2019 Kshs'000	2018 Kshs'000
The movement in borrowings is as follows:		
At start of year	31,066,701	28,077,640
Advanced in the year - Long term bank loan	17,334,800	4,907,194
- Short term bank loan	-	3,800,000
Repayments in the year	(11,525,326)	(5,492,942)
Movement in bank overdrafts	(401,245)	(188,121)
Effect of exchange rate changes	(155,186)	(37,070)
At end of year	36,319,744	31,066,701

Notes (Continued)

33 Borrowings (continued)

(a) Group (continued)

- (i) Related party loan from Diageo Finance Plc: The loan of Kshs 11,469,236,000 was repaid during the year. The related party loan was issued in 2012 and attracted variable interest rates at 2% above Kenya Bankers' Reference Rate (KBRR) (2018: 2%). This loan was unsecured.
- (ii) Bank loans comprise:
 - Long term loan from Stanbic Bank Kenya Limited of Kshs 12,283,700,000 (2018: Kshs 4,520,000,000) at a weighted average interest rate of 6%. The loan is unsecured and matures in March 2025.
 - Medium term loan from Barclays Bank of Kenya Kshs 2,831,478,000 (2018: Kshs 3,156,250,000) at average annual interest rates of (CBR+300bps) which currently comes to 12% (2018: 12.5%). This facility is secured by a letter of comfort from Diageo Plc for Kshs. 7.8 billion and matures in 5 years from June 2017.
 - Medium-term Loan from Stanbic Bank Kenya Kshs 5,500,000,000 at interest rate of 10.4%. The loan is unsecured and matures on 31 December 2023.
 - Medium-term Loan from Standard Chartered bank of Kenya Kshs 4,500,000,000 at interest rate of 10.3%. The loan is unsecured and matures on 28 December 2023.
 - Medium term loan from Stanbic Bank of Uganda USD 2,312,500 (2018: USD 3,250,000) at an effective interest rate of (3 months LIBOR+4.85%) which currently comes to 7.2% (2018: 6%). This facility is unsecured and matures on 30 April 2021.
- (iii) Medium term note of Kshs 11,000,000,000 (2018: Kshs 11,000,000,000) in two tranches. The first tranche of Kshs 5,000,000,000 is unsecured, has an annual interest rate of 12.95% (2018: 12.95%) and matures in March 2020. The second tranche of Kshs 6,000,000,000 also unsecured has an annual interest rate of 14.17% (2018: 14.17%) and matures in March 2022.
- (iv) The bank overdraft facilities have an effective interest rate of 10% (2018: 10%) and is sourced from Barclays Bank of Kenya, Barclays Bank of Uganda, Citibank Uganda and Citibank Kenya.

The Group is not in breach of any financial covenants for facilities issued by its bankers as at 30 June 2019. For the medium term note, the Capital Markets Authority has exempted the Group from maintaining a current assets ratio of 1 until 2020. The Group had available undrawn facilities of Kshs 11.7 billion as at 30 June 2019 (2018: Kshs 13.4 billion).

(b) Company

	2019 Kshs'000	2018 Kshs'000
The borrowings are made up as follows:		
Non-current		
Bank loans	25,115,178	7,868,462
Medium term note	6,000,000	11,000,000
Related party loan	-	11,469,236
	31,115,178	30,337,698
Current		
Medium term note	5,000,000	-
Bank overdraft	-	7,175
Total borrowings	36,115,178	30,344,873

Notes (Continued)

33 Borrowings (continued)

(b) Company (continued)

The carrying amounts of current borrowings approximate their fair value, as the impact of discounting is not material.

The movement in borrowings is as follows:

	2019 Kshs'000	2018 Kshs'000
The movement in borrowings is as follows:		
At start of year	30,344,873	26,969,605
Advanced in the year - Long term bank loan	17,334,800	4,907,194
- Short term bank loan	-	3,800,000
Repayments	(11,557,320)	(5,338,732)
Movement in bank overdrafts	(7,175)	6,806
At end of year	36,115,178	30,344,873

- (i) Related party loan from Diageo Finance Plc: The loan of Kshs 11,469,236,000 was repaid during the year. The related party loan was issued in 2012 and attracted variable interest rates at 2% above Kenya Bankers' Reference Rate (KBRR) (2018: 2%). This loan was unsecured.
- (ii) Bank loans comprise:
 - Long term loan from Stanbic Bank Kenya Limited of Kshs 12,283,700,000 (2018: Kshs 4,520,000,000) at a weighted average interest rate of 6%. The loan is unsecured and matures in March 2025.
 - Medium term loan from Barclays Bank of Kenya Kshs 2,831,478,000 (2018: Kshs 3,156,250,000) at average annual interest rates of (CBR+300bps) which currently comes to 12% (2018: 12.5%). This facility is secured by a letter of comfort from Diageo Plc for Kshs. 7.8 billion and matures in 5 years from June 2017.
 - Medium-term Loan from Stanbic Bank Kenya Kshs 5,500,000,000 at interest rate of 10.4%. The loan is unsecured and matures on 31 December 2023.
 - Medium-term Loan from Standard Chartered bank of Kenya Kshs 4,500,000,000 at interest rate of 10.3%. The loan is unsecured and matures on 28 December 2023.
- (iii) Medium term note of Kshs 11,000,000,000 (2018: Kshs 11,000,000,000) in two tranches. The first tranche of Kshs 5,000,000,000 is unsecured, has an annual interest rate of 12.95% (2018: 12.95%) and matures in March 2020. The second tranche of Kshs 6,000,000,000 also unsecured has an annual interest rate of 14.17% (2018: 14.17%) and matures in March 2022.
- (iv) The bank overdraft has an effective interest rate of 10% (2018: 10%) and is sourced from Barclays Bank of Kenya, Barclays Bank of Uganda, Citibank Uganda and Citibank Kenya.

Notes (Continued)

34 Related party transactions

The ultimate parent of the Group is Diageo Plc, incorporated in the United Kingdom. The Company is controlled by Diageo Kenya Limited incorporated in Kenya and other subsidiaries of Diageo Plc. There are other Companies that are related to East African Breweries Limited through common shareholdings.

The following are transactions and balances with related parties:

(a) Group

(i) Management and manufacturing fees payable/receivable to/from Companies and royalties paid

	2019 Kshs'000	2018 Kshs'000
Diageo Great Britain Limited	1,670,341	1,554,262
Diageo Ireland	697,756	273,040
Diageo North America, Inc	279,626	591,465
Diageo Scotland Limited	185,639	109,718
Diageo Brands B.V.	122,378	111,386
Diageo Business Services Limited Hungary	42,475	155,614
Guinness Nigeria plc	13,638	12,844
Guinness Ghana Breweries Limited	9,059	29,050
Diageo plc	-	11,651
Other related parties	8,200	7,108
	3,029,112	2,856,138

(ii) Purchase of goods and services

Diageo Ireland	1,439,139	1,498,684
Diageo Brands B.V.	453,654	420,040
Diageo Great Britain Limited	385,665	132,906
Diageo North America, Inc	257,975	354,455
Guinness Storehouse Limited	154,690	-
Diageo Scotland Limited	26,568	35,806
Diageo South Africa (Pty) Limited	1,506	33,387
Guinness Cameroun S A	-	46,081
Other related parties	-	8,111
	2,719,250	2,529,470

Notes (Continued)

34 Related party transactions (continued)

(a) Group (continued)

(iii) Outstanding balances arising from sale and purchase of goods/services

Receivables from related parties

	2019	2018
	Kshs'000	Kshs'000
Diageo Southern Africa Markets (Pty) Limited	100,061	105,639
Guinness Cameroun S.A.	45,290	51,971
Guinness Nigeria plc	18,655	23,838
Sumagro Limited	-	97,994
Diageo Great Britain Limited	-	23,104
Other related parties	53,761	48,420
	217,767	350,966

Payables to related parties

Diageo Ireland	468,493	444,579
Diageo Brands B.V.	463,865	108,191
Diageo Great Britain Limited	234,584	397,215
Diageo North America, Inc	73,708	66,312
Diageo Business Services Hungary	6,560	12,943
Diageo Finance plc	-	102,752
Other related parties	15,809	20,874
	1,263,019	1,152,866

Long term debt

Loan from Diageo Finance Plc	-	11,469,236
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Terms of the Diageo Finance plc loan have been disclosed in Note 33.

Notes (Continued)

34 Related party transactions (continued)

(b) Company

(i) Management and manufacturing fees payable/receivable to/from group companies and royalties paid

	2019	2018
Sale of goods and services	Kshs'000	Kshs'000
Kenya Breweries Limited	1,646,725	1,501,955
UDV (Kenya) Limited	385,212	696,065
Uganda Breweries Limited	169,456	135,187
East African Maltings Limited	3,624	4,433
Other related parties	18,001	-
	2,223,018	2,337,640
Purchase of goods and services		
Kenya Breweries Limited	1,899,104	2,742,801
Diageo Great Britain Limited	909,798	540,766
Diageo Scotland Limited	183,673	93,243
Uganda Breweries Limited	67,696	68,890
Diageo Business Services Limited Hungary	42,475	88,831
Diageo Brands B.V.	39,613	33,372
Diageo North America, Inc	13,806	27,338
Guinness Ghana Breweries Limited	9,059	28,796
Serengeti Breweries Limited	7,798	-
Diageo Americas Supply Inc	7,728	15,653
Diageo South Africa (Pty) Limited	3,988	39,890
Diageo Business Services India	-	62,774
Guinness Nigeria plc	-	12,844
Other related parties	8,044	19,292
	3,192,782	3,774,490

(ii) Outstanding balances arising from sale and purchases of goods and services

Loans receivable from related parties	2019	2018
	Kshs'000	Kshs'000
Kenya Breweries Limited	15,000,000	15,000,000
Uganda Breweries Limited	1,875,602	1,759,774
East Africa Maltings Limited	1,742,662	1,742,662
	18,618,264	18,502,436

The Company advanced loans to the subsidiaries to finance their capital expenditure and working capital requirements as part of the Group's centralized treasure management process. The loans are repayable on demand depending on the cash flows of the subsidiaries. At the year end, the Company had committed not to recall the loans for at least twelve months from the date of approval of the financial statements. The loans receivable are unsecured. They attract interest based on the Central Bank of Kenya Rate (CBR) plus 2.5% p.a.

Notes (Continued)

34 Related party transactions (continued)

(b) Company (continued)

(ii) Outstanding balances arising from sale and purchases of good/services (continued)

Receivables from related companies

	2019	2018
	Kshs'000	Kshs'000
Receivables from subsidiaries		
Kenya Breweries Limited	551,902	1,933,792
Uganda Breweries Limited	60,215	46,338
UDV (Kenya) Limited	59,010	96,321
East African Maltings Limited	14,912	629,090
	686,039	2,705,541
Receivables from related parties		
Diageo Southern Africa Markets (Pty) Limited	100,061	100,608
Diageo plc	22,485	-
Guinness Ghana Breweries Limited	7,842	-
Diageo Great Britain Limited	6,059	23,104
Seychelles Breweries Limited	2,782	800
Meta Abo Brewery Share Company	1,465	11,679
Diageo North America, Inc	148	9,482
Diageo Supply Marracuene Limitada	-	51,376
Diageo Scotland Limited	-	5,031
Other related parties	-	11,649
	145,436	219,879
Total current assets	831,475	2,925,420

Notes (Continued)

34 Related party transactions (continued)

(b) Company (continued)

(ii) Outstanding balances arising from sale and purchases of good/services (continued)

Current liabilities	2019	2018
	Kshs'000	Kshs'000
Payables to subsidiaries		
Kenya Breweries Limited	6,588,246	9,577,351
UDV (Kenya) Limited	7,927,002	4,558,847
EABL international Limited	254,524	2,659,896
East African Maltings Limited	458,304	8,796
East African Breweries (Rwanda) Limited	1,337	1,152
EABL Employee Share Ownership Plan (ESOP)	-	5,343
	15,229,413	16,811,385
Payables to related parties		
Diageo Business Services Hungary	18,533	-
Diageo Americas Supply	6,527	12,943
Diageo Great Britain Limited	-	102,752
Others	9,359	16,164
	34,419	131,859
Total current liabilities	15,263,832	16,943,244
Long term debt		
Loan from Diageo Finance Plc	-	11,469,236

Terms of the Diageo Finance plc loan have been disclosed in Note 33.

(c) Other related party disclosures

(h) Directors' remuneration

	2019	2018
	Kshs'000	Kshs'000
Group		
Fees for services as a Director	33,516	37,755
Share based payments	50,571	39,459
Other emoluments (included in key management compensation in (ii) below)	230,256	189,638
	314,343	266,852

Directors' remuneration include fees in relation to non-executive Directors and compensation to executive Directors in the Company and its subsidiaries.

Notes (Continued)

34 Related party transactions (continued)

(d) Other related party disclosures

(i) Directors' remuneration (continued)

	2019	2018
	Kshs'000	Kshs'000
Company		
Fees for services as a Director	33,516	37,754
Share based payments	40,645	32,469
Other emoluments (included in key management compensation in (ii) below)	183,801	150,788
	257,962	221,011

(ii) Key management compensation

Key management includes executive Directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

Group

	2019	2018
	Kshs'000	Kshs'000
Salaries and other shorter term employment benefits	864,115	952,511
Share based payments	52,535	79,444
Post-employment benefits	49,085	49,420
	965,735	1,081,375

Company

	2019	2018
	Kshs'000	Kshs'000
Salaries and other shorter term employment benefits	276,059	315,455
Share based payments	52,535	47,343
Post-employment benefits	1,647	1,110
	330,241	363,908

35 Events after the reporting period

There were no material events after the reporting period requiring adjustment to, or disclosure in the financial statements.

Principal shareholders and share distribution

The ten largest shareholdings in the Company and the respective number of shares held at 30 June 2019 are as follows:

Name(s) and Address	Number of shares	%
Diageo Kenya Limited	338,618,340	42.82%
Diageo Holdings Netherlands B.V.	36,361,290	4.60%
Guinness Overseas Limited	20,628,804	2.61%
	395,608,434	50.03%
Standard Chartered Nominees Non-Resd. A/C KE10085	17,580,000	2.22%
Standard Chartered Nominees Non-Resd. A/C 9069	17,556,547	2.22%
Kenya Commercial Bank Nominees Limited A/C 915B	10,834,544	1.37%
Standard Chartered Kenya Nominees Limited A/C KE003250	8,327,449	1.05%
Kenya Commercial Bank Nominees Limited A/C 915A	6,841,117	0.87%
Standard Chartered Nominees Non-Resd. A/C 9866	5,964,552	0.75%
Stanbic Nominees Limited A/C NR4323488	5,944,250	0.75%
Total number of shares	468,656,893	59.26%

Distribution of shareholders	Number of shares	Number of shareholders	%
1 – 500 shares	2,380,388	12,630	0.30%
501 – 5,000 shares	15,488,105	9,698	1.96%
5,001 – 10,000 shares	6,530,615	920	0.83%
10,001 – 100,000 shares	39,099,220	1,345	4.94%
100,001 – 1,000,000 shares	106,981,851	339	13.53%
Over 1,000,000 shares	620,294,177	81	78.44%
Total	790,774,356	25,013	100.00%

EABL Directors' shareholding as at 30 June 2019:

Director's names	Number of shares
Jane Karuku	1,296
Caroline Musyoka	2,782