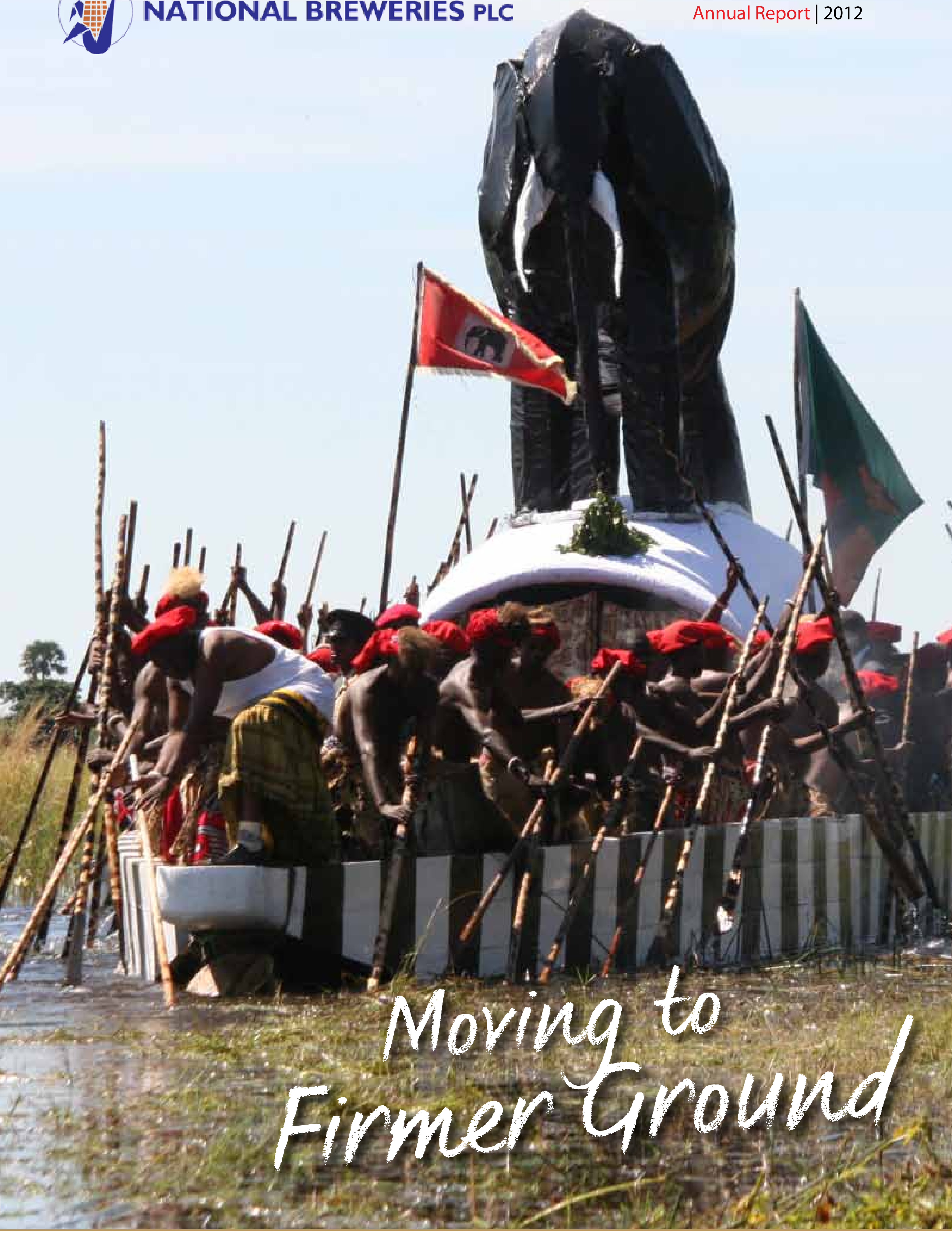
NATIONAL BREWERIES PLC

Annual Report | 2012



# Moving to Firmer Ground

A subsidiary of SABMiller plc

1) Chibuku Shake Shake has been a traditional beer that has been shared amongst friends for over 50 years.

2) and 3) National Breweries Plc boasts experienced staff who are well versed with the business including a well maintained fleet of vehicles to deliver the products around the country.

4) The Directors

# Contents



*Another Shake, another profitable year*

## VISION

Our Company's vision is to be the most admired company in the global beer industry, by being the:

- Investment of choice
- Employer of choice
- Partner of choice

## MISSION

Our mission is to be the most admired and respected company as judged by our stakeholders.

## VALUES

### *Our people are our enduring advantage*

- The calibre, passion and commitment of our people sets us apart
- We value and encourage diversity
- We select and develop people for the long term
- Performance is what counts

### *Accountability is clear and personal*

- We favour decentralised management and practical maximum local autonomy
- Goals and objectives are aligned and clearly articulated
- We prize both intellectual rigor and emotional engagement
- We are honest about performance
- We require and enable self-management

### *We work and win in teams*

- We actively develop and share knowledge within the group
- We consciously balance local and group interest
- We foster trust and integrity in internal relationships
- We encourage camaraderie and a sense of fun

### *We understand and respect our customers and consumers*

- We are endlessly concerned with our customers' needs and perceptions
- We build lasting relationships, based on trust
- We aspire to offer the preferred choice of products and services
- We innovate and lead in a changing world

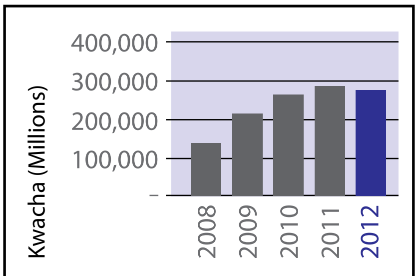
### *Our reputation is indivisible*

- Our reputation relies on the actions and statements of every employee
- We build our reputation for the long term
- We are fair and ethical in all our dealings
- We benefit the local communities in which we operate

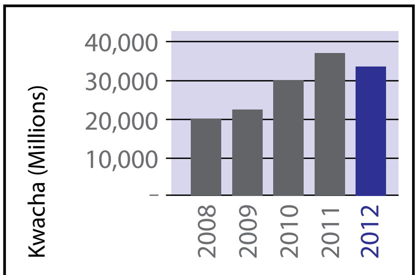
**Wesley Tiedt**
**Managing Director**

# Company Financial Review

| (In Kwacha millions) | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **K Million** | | | | | |
| Gross turnover | 141,136 | 215,031 | 254,187 | 289,429 | **276,098** |
| Excise duty | (17,779) | (26,379) | (25,558) | (28,652) | **(26,725)** |
| Revenue | 123,357 | 188,652 | 228,629 | 260,777 | **249,373** |
| Profit before income tax | 35,323 | 37,514 | 49,788 | 57,757 | **54,708** |
| Profit for the year | 22,377 | 23,814 | 30,928 | 37,170 | **35,257** |
| Non-current assets | 21,012 | 31,264 | 31,872 | 35,361 | **45,021** |
| Net current assets /(liabilities) | 3,179 | (7,187) | 637 | 1,279 | **(8,853)** |
| Deferred income tax assets /(liabilities) | (2,886) | (4,473) | (5,633) | 6,380 | **6,654** |
| Shareholders funds | (21,305) | (19,604) | (26,876) | (30,260) | **(29,514)** |
| **Kwacha** | | | | | |
| Earnings per share | 355 | 378 | 491 | 590 | **560** |
| Dividends per share | 355 | 378 | 491 | 590 | **280** |



Gross Turnover



Profit for the year

# Chairman's Statement

*Dear Shareholders,*

This has been a difficult year for the company on several fronts. Nonetheless, I am pleased with the results the company managed to deliver under the circumstances. Following the integration of the support functions with our sister company Zambian Breweries Plc, we saw the departure from the Board of Mr. James Webb as Finance Director. I would like to thank Mr. Webb for his valuable contribution to the company during his tenure. He was replaced by Mrs. Annabelle Degroot.  Mr. Anele Malumo was appointed as a Director of the Board and we welcome both him and Mrs. Degroot to the Board. To ensure the appropriate focus, Mr. David Cason was appointed on to the Executive Committee and took over responsibility for the day to day management of the company.

**Market Overview**

The most notable feature about the trading environment for the company during the period was the continuation of the intense competition. However, the economy continued to perform well and consumer sentiment remained positive. Particularly pleasing was the peaceful transition after the elections in September 2011 and the impact this had on general sentiment in the country.

**Strategic Review**

In my report on the previous year, I indicated that we had reviewed prices in December 2010 in a bid to preserve margins. During this year, we have had to revisit this decision as the impact on volumes in our urban markets was significant. In the last quarter, we also saw the kwacha exchange rate depreciate versus the major trading currencies and this had a notable


impact on the cost of key inputs. As a result of these difficult circumstances, our profit performance was 5% behind our performance of the previous year.

Notwithstanding, we are pleased to be able to propose the payment of a generous dividend, albeit not at the same level as before. Going forward, we expect the pressure on our ability to maintain the very high dividend levels of the past to continue as we seek to make the investments necessary for the continuity of the business.

**Dividends**

During the year, an interim dividend of K245.27 was paid. We will be recommending to the Annual General Meeting that a final dividend of K34.50 be approved, which will be paid by 21 September 2012. This dividend would be paid to ordinary shareholders registered at the close of business on 27 July 2012. This represents a 50% distribution of profits.

**Sustainable Development**

A very important aspect of our business is the attention

> "We will be focusing on providing a differentiated product to our consumers."

we pay to sustainable development. During the year, we continued our focus on this and undertook several projects aimed at promoting the responsible use of resources and contributing to the well-being of society. This was done under the umbrella of our Corporate Social Responsibility (CSR) and Corporate Social Investment (CSI) programs.

## Corporate Governance

We fully subscribe to the requirement for good corporate governance as part of ensuring that shareholders' interests are well protected. Our already strict codes in this regard now also include a code specifically aimed at making sure the company is not involved in any kind of bribery. I am happy to report that no significant breaches were reported during the year under review.

## Prospects For The Future

We will look to ensure that we are in a position to take advantage of the growth opportunities available in this growing economy by renewing our ageing plant infrastructure. We will continue to focus on maintaining the highest product quality standards while managing our costs within our historical tight parameters. We will be focusing on providing a differentiated product to our consumers.

Valentine Chitalu
Chairman

# Managing Director's Report

Our focus during the year was to improve our margins and maintain volume growth. We sought to maintain high service levels, consistently delivering a quality product to our consumers while continuing to manage costs downwards.

Our intent was to continue to prioritise the development of our people and invest to improve our ability to leverage our IT infrastructure.

## Performance

The price increase we took in December 2010 resulted in a much bigger impact on our volumes than we had anticipated. As a result, our volumes recorded declines from the prior year, despite reversing the price adjustment later in the year.

However, the strength of our Chibuku brand and our uncompromising quality standards meant that we were still able to retain our market position.

Although our reported profit for the year was below our aspirations and that of the previous year, we were able to recommend that a healthy dividend be paid to shareholders. In difficult circumstances, we were able to hold our per unit fixed costs to within budget and marginally reduce our per unit variable costs.

## Support Services Integration

During the year, we integrated all our support services with our sister company Zambian Breweries Plc. This process delivered many benefits and put us in a position to accelerate the achievement of several of the aspirations we had set out at the start of the year.

**Wesley Tiedt -** Managing Director

The process allowed us to accelerate our agenda with respect to the leverage of our IT infrastructure and also opened up new opportunities for the development of our performance management practices and development of our people.

## Sustainable Development

We continue to hold this area as paramount in the way that we conduct our business. As part of the SABMiller group, our philosophy and practices are aligned to the group's strategy and we will continue to pursue projects that support this. Included with this report is a dedicated report on our sustainable development programme and I draw your attention to it.

## Capital Investment

We continued to invest aggressively in our distribution fleet in order to maintain our high service level to our customers, committing K2 billion in this area.

> "Our focus during the year was to improve our margins and maintain volume growth."

We also started work on a K25 billion project to upgrade our Kitwe plant. We expect this work to be concluded by September 2012. Once complete, it will allow us to better satisfy the demands from our existing markets and also open up new ones.

## Future Prospects

We are confident that the economy will continue the steady growth experienced so far. The significant investment we have made at our Kitwe plant will allow us to better serve our consumers and we will look to further invest in improving our infrastructure. We would like to commend government for the decisive action taken to ban the manufacture and sale of cheap spirits packed in sachets. This will go a long way in promoting responsible use and curbing uncontrolled access by minors to alcohol.

We will combine an innovative approach, the deliberate attention to sustaining the health of our brands, a relentless focus on product quality, continued strong cost management, leveraging the strength of our people and driving through the benefits available from leveraging our IT platform, to take advantage of growth opportunities in the market.

**Wesley Tiedt**
Managing Director

# Board of Directors

1

### Valentine Chitalu

Valentine (47) is an entrepreneur in Zambia and Southern Africa specializing in private equity and local private sector development. Until December 2003, Valentine worked for CDC/ Actis in London and Lusaka specialising in deals origination throughout Southern Africa and portfolio management in Zambia and Malawi. Valentine was previously Chief Executive Officer at the Zambia Privatisation Agency where he was responsible for the divestiture of over 240 enterprises. He also worked for KPMG Peat Marwick in the United Kingdom in the early part of his career. Valentine holds several board positions in Zambia, South Africa and the United Kingdom and is Chairman of several corporate organizations. Valentine is a qualified Accountant and holds a Masters Degree in Development Economics.

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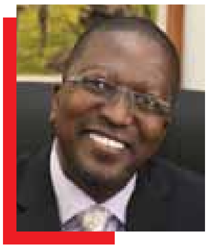

### Anele Malumo

Anele (47) is the Managing Director of Zambian Breweries plc as well as an executive member of the Board. He worked at South African Breweries (SAB) Limited where he accumulated a wealth of experience for over twelve (12) years in finance, operations, sales and distribution. He holds a bachelor's Degree in Accounting, an MBA and is a Fellow of the Association of Chartered Certified Accountants (ACCA).

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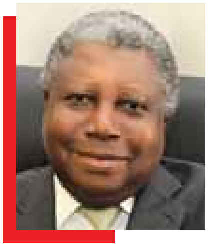

### George Sokota

George (64) is a professional accountant and financial consultant. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is also a Fellow of the Association of Certified Accountants, United Kingdom and Fellow of the Zambia Institute of Chartered Accountants (ZICA). He sits on a number of notable boards, several of which he chairs.

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### Annabelle Degroot

Annabelle (39) joined Zambian Breweries Plc in 2008 and was appointed as the Finance Director of the Zambia Group in February 2012. She has over 15 years experience in audit and finance functions in the UK and Zambia.

Annabelle holds a BA MA in Economics from Cambridge University and is a qualified ACA with the Institute of Chartered Accountants, England & Wales (ICAEW). She is a Fellow of the Zambia Institute of Chartered Accountants (ZICA).

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### Gert Nel

Gert (52) joined SABMiller in 1989. He has held several of positions in SABMiller, including Senior VP Finance and Administration in Poland and Group Head of Finance Excellence before returning to the Africa Division in April 2011 as Senior Manager, Finance Operations. Gert holds various degrees including an MBA and PhD as well as a BA Degree in Psychology obtained in 2011.

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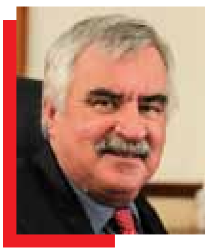

### Wesley Tiedt

Wes (59) joined SABMiller in 1998 in Botswana as General Manager of Botswana Breweries Limited. He joined National Breweries in Lusaka in May 2003 as Managing Director of National Breweries Plc as well a Director of Zambian Breweries Plc. and was appointed a Director of Chibuku Products Limited of Malawi from May 2003. Wes has over 30 years experience in opaque beer and related products. Wes is also a member of the Institute of Brewing & Distilling and a Fellow of the Chartered Management Institute (CMI) FCMI of the United Kingdom.

# Directors' Report

The directors present their report and the audited financial statements of National Breweries Plc (the "Company") for the year ended 31 March 2012, which disclose the state of affairs of the Company.

## Principal Activities

The principal activity of the Company continued to be the production, packaging, distribution and sale of traditional beverages.

In the opinion of the directors, all the activities of the Company substantially fall within the same industry categorisation.

## Share Capital

The authorised share capital of the Company is 75,000,000 ordinary shares of K1 each of which 63,000,000 are issued and fully paid.

## Results and Dividends

| | 2012 | 2011 |
|---|---|---|
| | K' million | K' million |
| Revenue | 249,373 | 260,777 |
| Profit for the year | 35,257 | 37,170 |

During the year an interim dividend of K15,452 million (2011: K16, 619 million) was paid. The directors recommend the approval of a final dividend of K2,177 million (2011: K20, 551 million), bringing total dividend for the year to K17,629 million (2011: K37, 170 million).

## Directors

The Directors who held office during the year and to the date of this report were:

| | | |
|---|---|---|
| Valentine Chitalu | - | Chairman |
| George Sokota | - | Non - Executive Director |
| Wesley Tiedt | - | Managing Director |
| Anele Malumo | - | Executive Director (Appointed 1 August 2011) |
| Gert Nel | - | Non - Executive Director (Appointed 1 February 2012) |
| Annabelle Degroot | - | Finance Director (Appointed 1 February 2012) |
| Pearson Gowero | - | Non - Executive Director (Resigned 31 July 2011) |
| Gerard Besson | - | Non - Executive Director (Resigned 31 January 2012) |
| Brian Hirsch | - | Non - Executive Director (Resigned 31 January 2012) |

# Directors' Report (contd)

## Average number of employees and remuneration

The total remuneration of employees during the year amounted to K26, 773 million (2011: K28, 188 million) and the average monthly number of employees during the year were as follows:

| Month | Number | Month | Number |
|---|---|---|---|
| April | 672 | October | 646 |
| May | 661 | November | 663 |
| June | 654 | December | 655 |
| July | 652 | January | 662 |
| August | 656 | February | 660 |
| September | 660 | March | 648 |

## Exports

The Company did not export any products during the year (2011: nil).

## Gifts and Donations

During the year, the Company made donations of K74 million (2011: K90 million) to various charitable organisations and events.

## Property, Plant and Equipment

The Company purchased property, plant and equipment amounting to K16,976 million (2011: K9,729 million) during the year.

In the opinion of the directors, the carrying value of property, plant and equipment is not more than their recoverable value.

## Research and Development

The Company did not incur any research and development costs in the year (2011: nil).

## Health and Safety

The Company is committed to securing the reasonable health, safety and welfare of its employees at work and visitors against risks to health or safety arising out of or in connection with the activities of the Company.

## Auditors

The auditor, PricewaterhouseCoopers, has indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the Board

Mwansa Mulumba-Mutimushi
Company Secretary

12 June 2012

# Corporate Governance Statement

## DIRECTORS' REPORT ON CORPORATE GOVERNANCE

MM Mutimushi - Company Secretary

The National Breweries Plc Board, is devoted to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business of the company.

The Board is charged with responsibility to the company's shareholders for the oversight of governance. Principles of good governance are embedded in the way the Board, its sub-committee and the executive committee operates the business. The Board applies integrity and accountability throughout its activities. Each director brings independence of character and judgment to the Board.

The Board believes that a corporate culture of compliance with applicable laws, regulations, internal policies and procedures is a core component of good corporate governance. Therefore, the Anti- Bribery Policy communication was rolled out in during the year.

The Board has drawn some of the best practices from the Lusaka Stock Exchange (LuSE) governance code, the UK Combined Code on Corporate Governance and the Turnbull Guidance Report on internal controls.

## CORPORATE GOVERNANCE COMPLIANCE

The Board is pleased to report that throughout the year ended 31 March 2012, the Company complied with the LuSE corporate governance code, except in the following respects:

- The Board has not created a separate remuneration committee. Matters of remuneration for executive directors are dealt with by non-executive directors, whilst the remuneration of non-executive directors is approved by shareholders at the AGM.

## BOARD COMPOSITION AND INDEPENDENCE

The Board is made of six directors as follows:

- Two non-executive directors who are independent of the Company and the wider SABMiller group
- One non-executive director who represent the parent company
- Three executive directors including the Managing Director and Finance Director.

The Board considers that its overall composition in the year under review continued to remain appropriate, having regard in particular to the independence and integrity of all of its directors and experience and skills which they bring to their duties. It also considers that the composition of the Audit Committee remains appropriate.

## Corporate Governance Statement (contd)

# OPERATIONS OF THE BOARD

## Board Meetings and Attendance

The Board met three (3) times during the year and in addition held the Annual General Meeting (AGM).

All the Board members attended the meetings as set out for the year.

The Audit Committee also met three times during the year. The external auditors, the Managing Director and Financial Director were in attendance but only by invitation. Other members of the Board attended as required.
The Company Secretary acts as secretary to the Board and its sub-committee.

## Operations of the Board

The Executive Directors propose strategy and implement operational decisions concerning the Company's businesses. Non-executive Directors complement the skills and experience of the executive directors, by contributing to the formulation of strategy, policy and decision making through their knowledge and experience of other businesses and sectors. The Board has a majority of non-executive directors.

The Executive Directors are also on a performance related remuneration scheme that is determined annually. All the managers are also on this scheme. This enhances productivity and creates a culture of performance at all levels of management.

## Matters reserved for the Board

The Board has specific responsibilities. These include approval of financial statements; the business strategy; the annual capital expenditure plan; major capital projects; material investments and disposals; social and environmental policy and treasury policies.

## Information for the Board

The Board and its sub-committee are supplied with full and timely information, including detailed financial information. This enables executive and non-executive directors to discharge their responsibilities. The company secretary is responsible for advising the chairman on matters of corporate governance.

## Chairman and Chief Executive Officer's Roles

The roles of the chairman and chief executive are separate with responsibilities divided between them. This separation of responsibilities has been formalised in their respective letters of appointment, approved by the Board.

## Board evaluation

The Board has set benchmark parameters against which the Board's performance is evaluated. This is led by the Chairman with input from the Executive and Non-Executive Directors.

## Retirement and election of directors

It is the Board's policy that new directors are subject to election at the first opportunity following their appointment. Non-executive directors are subject to retirement and re-election on an annual basis.

## Corporate Governance Statement (contd)

# THE AUDIT COMMITTEE

## Composition

The Audit Committee is composed of three members, all of whom are independent of management.

## Meetings and attendance

The Audit Committee met three times during the year. The external auditors, the Chief Executive and Financial Director were in attendance at each meeting, by invitation. Other members of the Board attended as required. The head of the Internal Audit function reports at Audit Committee meetings and has unrestricted access to the Chairperson of the Audit Committee. The department has an adequate and continuing training programme

## Terms of reference

The terms of reference of the audit committee are as follows:

- Reviewing of annual, quarterly, midyear financial statements, and interim and preliminary announcements before they are submitted to the Board
- Examination and review of the internal control environment and the company's statement on internal control
- Review of the effectiveness of the internal audit function throughout the year
- Review the effectiveness of the system for monitoring compliance with laws and regulations
- Recommend to the Board the appointment of the external auditors
- Discuss and agree the audit plan with the auditors and receive the final audit report to the Board

## Relations with auditors

PricewaterhouseCoopers (PwC) Zambia are the Auditors of the Company. The Company has implemented an internal policy on auditor independence and non-audit services. The Audit Committee is satisfied that, for the period under review, the independence of the auditors has not been affected by the provision of non-audit services.

# RELATIONS WITH STAKEHOLDERS

National Breweries Plc sees itself as a partner in many issues that affect the communities in which it operates. It is for this reason that the Company, in partnership with the Zambia Environmental Management Agency (ZEMA), embarked on various activities all in an effort to sensitise the public on the need to dispose of litter in designated areas. The company in the last financial year spent over K80 million in programs meant to support the Government in its 'Make Zambia Clean Campaign'. Aside from the 5000 informational posters printed for distribution to the Municipalities across the country, the Company also produced anti-litter jingles which have been airing on community radio stations. Further, a skip worth K37m was also bought and donated to the Lusaka City Council to help with the collection of garbage in the central business district.

National Breweries Plc, under the auspices of its mother-body SABMiller has in the past year had various interventions to engage stakeholders and work collectively to address irresponsible consumption of alcohol. In partnership with her sister company, Zambian Breweries Plc, the two companies brought together more than 50 local musicians to a workshop dubbed "Being a Positive Influence" which centered around sharing ideas with each other on how best musicians can be good examples to their fans when it comes to alcohol consumption.

## Corporate Governance Statement (contd)

Another intervention that National Breweries Plc in partnership with Zambian Breweries Plc made was the hosting of a one hour talk show dubbed 'TALKING ALCOHOL' which was a program aired live on Zambia's Muvi Television. The main aim of the 6-part series was to create a platform of interaction of various experts in different fields of expertise to discuss how the nation could rally together to discourage alcohol abuse by providing accurate and balanced information on alcohol.

### INTERNAL COMMUNICATION

The Board also considers internal communication as being critical to the success of the business. To this effect, the Corporate Affairs department has been producing a quarterly magazine which is circulated to all employees. The magazine highlights key issues affecting the business such as financial performance, corporate governance and risk management, human resource, production, sales and distribution.

### RISK MANAGEMENT

Risk management forms an integral part of National Breweries plc's core values and the Company lays emphasis on adopting a structured and holistic risk management framework, in order to identify, control, mitigate and manage the risks across the Company.

The Directors are responsible for the Company's risk management systems and for reviewing their effectiveness. The risk management system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

### WHISTLE BLOWING

The Whistle Blowing Policy is enshrined within the Ethics Policy. The Board approved and implemented this whistle blowing policy in 2006, and it is reviewed from time to time.

This is a key element in demonstrating that National Breweries is committed to the highest possible standards of transparency, integrity, probity and accountability in its operations.

### LEGAL AND COMPLIANCE

The Company, as part of its management structure, has a Legal Counsel through whom matters pertaining to monitoring compliance with laws and regulations are passed.

The Board and senior management are briefed regularly, of any changes to the laws that are seen to impact on the business.

# Statement of Directors' Responsibilities

The Zambia Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Zambia Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Company and of its profit in accordance with International Financial Reporting Standards. The directors are also responsible for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Signed on their behalf by:

**Valentine Chitalu**
**Chairman**

**Wesley Tiedt**
**Managing Director**

12 June 2012

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NATIONAL BREWERIES PLC**

**Report on the financial statements**

We have audited the accompanying financial statements of National Breweries Plc set out on pages 17 to 41. These financial statements comprise the statement of financial position as at 31 March 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' responsibility 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 with the requirements of the Zambia Companies Act 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.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of National Breweries plc at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with requirements of the Zambia Companies Act.

*PricewaterhouseCoopers, PwC Place, Stand No 2374, Thabo Mbeki Road,*
*P.O. Box 30942, Lusaka, Zambia.*
*T: +260 (211) 256471/2 , F: +260(211) 256474, www.pwc.com/zm*

A list of Partners is available from the above address

**Report on other legal requirements**

The Zambia Companies Act requires that in carrying out our audit we consider whether National Breweries Plc has kept proper accounting records and other records and registers required by this Act.

In our opinion, based on our examination of those records, National Breweries Plc has maintained proper accounting records and other records and registers as required by the Zambia Companies Act.

**PricewaterhouseCoopers**
Chartered Accountants
Lusaka

12 June 2012

Nasir Ali
**Partner signing on behalf of the firm**

(All amounts are in millions of Kwacha unless otherwise stated)

## Statement of Comprehensive Income

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Revenue** | | 249,373 | 260,777 |
| Cost of sales | | (152,331) | (157,823) |
| **Gross profit** | | 97,042 | 102,954 |
| Other operating income | 6 | 771 | 264 |
| Distribution costs | | (13,836) | (19,566) |
| Administrative expenses | | (23,501) | (20,233) |
| Other operating costs | | (5,282) | (5,738) |
| **Operating profit** | | 55,194 | 57,681 |
| Finance costs | 7 | (486) | (876) |
| Finance income | 7 | - | 952 |
| **Profit before income tax** | 8 | 54,708 | 57,757 |
| Income tax expense | 10 | (19,451) | (20,587) |
| **Profit for the year** | | 35,257 | 37,170 |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive income for the year** | | 35,257 | 37,170 |
| **Earnings per share for profit attributable to the equity holders of the company** | | | |
| - Basic and diluted (kwacha per share) | 11 | 560 | 590 |

The notes on pages 21 to 41 are an integral part of these financial statements.

(All amounts are in millions of Kwacha unless otherwise stated)

## Statement of Financial Position

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 45,021 | 35,361 |
| | | 45,021 | 35,361 |
| **Current assets** | | | |
| Inventories | 13 | 15,959 | 31,902 |
| Trade and other receivables | 14 | 9,852 | 9,297 |
| Cash and cash equivalents | 15 | 9,137 | 4,624 |
| | | 34,948 | 45,823 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 41,346 | 27,293 |
| Current income tax | 10 | 2,135 | 5,674 |
| Derivative financial instrument | 17 | 320 | - |
| Bank overdraft | 15 | - | 11,577 |
| | | 43,801 | 44,544 |
| **Net current (liabilities)/assets** | | (8,853) | 1,279 |
| | | 36,168 | 36,640 |
| **Equity** | | | |
| Share capital | 18 | 63 | 63 |
| Retained earnings | | 29,451 | 30,197 |
| **Total equity** | | 29,514 | 30,260 |
| **Non-current liabilities** | | | |
| Deferred income tax | 19 | 6,654 | 6,380 |
| **Total non-current liabilities** | | 6,654 | 6,380 |
| **Total equity and non-current liabilities** | | 36,168 | 36,640 |

The notes on pages 21 to 41 are an integral part of these financial statements

The financial statements on pages 17 to 41 were approved for issue by the board of directors on

12 June 2012 and signed on its behalf by:

Director

Managing Director

(All amounts are in millions of Kwacha unless otherwise stated)

## Statement of changes in equity

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Year ended 31 March 2011** | | | |
| At start of year | 63 | 26,813 | 26,876 |
| **Comprehensive income** | | | |
| Profit for the year | - | 37,170 | 37,170 |
| Total comprehensive income for the year | - | 37,170 | 37,170 |
| **Transactions with owners** | | | |
| Dividends | | | |
| - Final for 2010 | - | (17,167) | (17,167) |
| - Interim for 2011 | - | (16,619) | (16,619) |
| Total transactions with owners | - | (33,786) | (33,786) |
| **At end of year** | 63 | 30,197 | 30,260 |
| **Year ended 31 March 2012** | | | |
| At start of year | 63 | 30,197 | 30,260 |
| **Comprehensive income** | | | |
| Profit for the year | - | 35,257 | 35,257 |
| Total comprehensive income for the year | - | 35,257 | 35,257 |
| **Transactions with owners** | | | |
| Dividends | | | |
| - Final for 2011 | - | (20,551) | (20,551) |
| - Interim for 2012 | - | (15,452) | (15,452) |
| Total transactions with owners | - | (36,003) | (36,003) |
| **At end of year** | 63 | 29,451 | 29,514 |

The notes on pages 21 to 41 are an integral part of these financial statements.

(All amounts are in millions of Kwacha unless otherwise stated)

## Statement of Cash Flows

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 21 | 78,283 | 56,718 |
| Interest received | | 372 | 188 |
| Interest paid | | (230) | (876) |
| Income tax paid | 10 | (22,716) | (17,591) |
| Net cash from operating activities | | 55,709 | 38,439 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (16,976) | (9,729) |
| Proceeds from sale of property, plant and equipment | | 702 | 94 |
| Net cash used in investing activities | | (16,274) | (9,635) |
| **Financing activities** | | | |
| Dividends paid to shareholders | | (23,420) | (33,786) |
| Net cash used in financing activities | | (23,420) | (33,786) |
| **Net increase/(decrease) in cash and cash equivalents** | | 16,015 | (4,982) |
| **Movement in cash and cash equivalents** | | | |
| At start of year | | (6,953) | (1,989) |
| Increase/(decrease) in cash and cash equivalents | | 16,015 | (4,982) |
| Exchange effect | | 75 | 18 |
| **At end of year** | 15 | 9,137 | (6,953) |

The notes on pages 21 to 41 are an integral part of these financial statements.

# Notes

## 1 General information

National Breweries Plc (the "Company") is incorporated in Zambia under the Zambia Companies' Act as a limited liability company and is domiciled in Zambia. The address of its registered office is:

Plot No 1609
Sheki Sheki Road
Light Industrial Area
P O Box 35135
Lusaka

## 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

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Zambia Kwacha (K), rounded to the nearest million.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires the directors to exercise judgement in the process of applying the Company'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.

**Changes in accounting policy and disclosures**

*(i) New and amended standards adopted*

The amendments to existing standards below are relevant to the Company's operations

| **Standard** | **Title** |
|---|---|
| IAS 1 | Presentation of financial statements |
| IFRS 7 | Financial instruments: Disclosures |

The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Company does not have any items presented under other comprehensive income.

(All amounts are in millions of Kwacha unless otherwise stated)

**Notes (continued)**

## 2 Summary of significant accounting policies (continued)

### Changes in accounting policy and disclosures (continued)

*(i) New and amended standards adopted (continued)*

The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has also removed the requirement to disclose the following:

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collaterals; and
- Renegotiated assets that would otherwise be past due but not impaired.

The application of the above amendment has simplified financial risk disclosures made by the Company.

Other amendments and interpretations to standards became mandatory for the year ends beginning 1 April 2011 but had no significant effect on the Company's financial statements.

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

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Company.

| Standard | Title | Applicable for financial years beginning on/after |
|---|---|---|
| IAS 19 | Employee benefits | 1 January 2013 |
| IFRS 9 | Financial instruments | 1 January 2015 |
| IFRS 13 | Fair value measurement | 1 January 2013 |

IFRS 9, 'Financial instruments' -IFRS 9, was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

**Notes (continued)**

## 2 Summary of significant accounting policies (continued)

### Changes in accounting policy and disclosures (continued)

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

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning 1 April 2015.

IFRS 13, 'Fair value measurement'
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Company is yet to assess IFRS 13's full impact.

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

### (b) (i) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), excise duty and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

Revenue is recognised as follows:

Sales of goods are recognised in the period in which the Company has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers acceptance of the products.

### (ii) Other operating income

a) Interest income is recognised using the effective interest method.

b) Rental income is recognised on an accruals basis in accordance with the relevant agreements.

**Notes (continued)**

## 2 Summary of significant accounting policies (continued)

### (c ) Foreign currency translations

(a) Functional and presentation currency

Items included in the financial are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Zambian Kwacha ("ZMK") which is the Company's functional currency.

(b) Transactions and balances

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 profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

### (d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. All property, plant and equipment are subsequently measured at historical cost less accumulated depreciation and any impairments losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost less their residual values over their estimated useful lives, as follows:

- Buildings 20 years
- Plant and motor vehicles 4 - 10 years
- Furniture and fittings 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds to their carrying amounts and are taken into account in determining profit.

**Notes (continued)**

## 2 Summary of significant accounting policies (continued)

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials, work in progress (WIP) and finished goods is determined by the standard cost method less provision for impairment. Cost of engineering spares is measured at weighted average cost method less provision for impairment. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

### (f) Trade receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

### (g) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

### (h) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss account over the period of the borrowings, using the effective interest method.

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### (i) Share capital

Ordinary shares are classified as ‘share capital’ in equity.

## Notes (continued)

## 2 Summary of significant accounting policies (continued)

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown in current liabilities.

### (k) Employee benefits

(i) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The Company and all its employees also contribute to the National Pension Scheme Authority (NAPSA), which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees.

The company's contributions to the defined contribution schemes are recognised as an employee benefit expense when they fall due.

### (l) Income tax

*a) Current income tax*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in 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 income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the end of the reporting period. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Notes (continued)

## 2 Summary of significant accounting policies (continued)

### (l) Income tax (continued)

*(b) Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### (m) Dividend distribution

Dividend payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

### (n) Segmental reporting

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

### (o) Financial assets

(i) Classification

All financial assets of the Company, except for derivatives, are classified as loans and receivables, based on the purpose for which the financial assets were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (o) Financial assets (continued)

Financial assets and liabilities are offset and the net amount reported in 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 realise the asset and settle the liability simultaneously.

(iv) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

#### p) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability.

**Notes (continued)**

## 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no 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.

## 4 Financial risk management

The Company's activities expose it to a variety of financial risks, including market risk (foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance but the Company does not hedge any risks.

Financial risk management is carried out by the Finance Director and Finance Manager under the treasury policy approved by the Board of Directors. The policy covers areas such as foreign exchange risk, interest rate risk and investing excess liquidity.

*Market risk*

(i) Foreign exchange risk

The company imports certain raw materials and services and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the South African Rand. Foreign exchange risk arises from bank balances and recognised assets and liabilities.

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the use of forward and holding of bank balances in the relevant foreign currencies.

At 31 March 2012, if the Kwacha had weakened/strengthened by 10% (2011: 10%) against the US dollar with all other variables held constant, post tax profit for the year and shareholder equity would have been K205 million (2011: K20 million) higher/lower, mainly as a result of US Dollar denominated trade payables and bank balances.

At 31 March 2012, if the Kwacha had weakened/strengthened by 10% (2011:10%) movement against the South African Rand with all other variables held constant, post tax profit for the year and shareholder equity would have been K 186 million (2011: K54 million) lower/higher, mainly as a result of South African Rand denominated trade payables and bank balances.

**Notes (continued)**

## 4 Financial risk management (continued)

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The company had no overdraft as at 31 March 2012. However, as at 31 March 2011 an increase/decrease of 2% would have resulted in a decrease/increase in post tax profit and shareholder equity of K150 million.

*Credit risk*

Credit risk arises from cash equivalents and deposits with banks, as well as trade and other receivables. The Company only banks with reputable well established financial institutions. Banks in Zambia have no external rating. The company does not have significant concentrations of trade receivables as most of its trade is on cash basis. For credit sales, the Company has policies in place to ensure that the sales are made to customers with an appropriate credit history.

The amount that best represents the Company's maximum exposure to credit risk at 31 March 2012 and 2011 is the carrying value of the financial assets in the statement of financial position.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. All receivables from related parties are with parties that the Company has a history of trading with and there has been no history of default.

No collateral is held for any of the above assets. None of the above assets are past due or impaired.

*Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines. Exposure in this aspect is limited as the Company is purely a cash business.

The directors monitor rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow.

(All amounts are in millions of Kwacha unless otherwise stated)

**Notes (continued)**

## 4 Financial risk management (continued)

*Liquidity risk (continued)*

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

| **At 31 March 2012:** | **Within 1 year** |
|---|---|
| - trade and other payables (excluding statutory liabilities and dividends) | 18,570 |
| | 18,570 |
| **At 31 March 2011:** | |
| - bank overdraft | 11,577 |
| - trade and other payables (excluding statutory liabilities and dividends) | 18,131 |
| | 29,708 |

*Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3) any of its borrowing facilities.

| **31 March 2012** | **Level 2** |
|---|---|
| **Liabilities** | |
| Financial liabilities at fair value through profit or loss | |
| – Trading derivatives | 320 |
| **Total liabilities** | 320 |

There were no derivatives at 31 March 2011.

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

## 4 Financial risk management (continued)

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

Total capital is calculated as equity plus net debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

During 2012 the Company's strategy, which was unchanged from 2011, was to maintain a gearing ratio between 45% and 50%. As at 31 March 2012, the Company had no borrowings. The gearing ratio at 31 March 2011 was less than the expected range and was as follows:

| | **2011** |
|---|---|
| Total borrowings (Note 15) | 11,577 |
| Less: cash and cash equivalents (Note 15) | (4,624) |
| Net debt | 6,953 |
| Total equity | 30,260 |
| Total capital | 37,213 |
| Gearing ratio | 19% |

## 5 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board considers the activities of the Company to substantially fall within the same product range and within Zambia.

The Board assesses the performance of the Company based on EBITDA. The Company does not incur any non-recurring expenditure and therefore does not adjust EBITDA.

(All amounts are in millions of Kwacha unless otherwise stated)

**Notes (continued)**

## 5 Segment information (continued)

The information provided to the Board of Directors for the reportable segment is as follows:

| | 2012 | 2011 |
|---|---|---|
| Revenue from external customers | 249,373 | 260,777 |
| EBITDA | 61,641 | 64,636 |
| Interest income | 372 | 188 |
| Interest expense | (230) | (876) |
| Depreciation | (7,075) | (6,191) |
| Income tax expense | (19,451) | (20,587) |
| Profit for the year | 35,257 | 37,170 |
| Total assets | 79,969 | 81,184 |
| Total liabilities | 50,455 | 50,924 |

The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a measure consistent with that of the financial statements.

There were no customers during the year whose individual revenue accounts for more than 10% of the entity's total revenue.

## 6 Other operating income

| | 2012 | 2011 |
|---|---|---|
| Net foreign exchange loss other than on borrowings and cash and cash equivalents | (67) | - |
| Interest income | 372 | 188 |
| Rental income | 5 | - |
| Profit on disposal of property, plant and equipment | 461 | 45 |
| Sundry income | - | 31 |
| | 771 | 264 |

## 7 Finance costs

| | 2012 | 2011 |
|---|---|---|
| **Finance cost** | | |
| Interest expense | | |
| - Bank borrowings | (230) | (876) |
| Net foreign exchange loss on borrowings and cash and cash equivalents | (256) | - |
| | (486) | (876) |
| **Finance income** | | |
| Net foreign exchange gain on borrowings and cash and cash equivalents | - | 952 |
| | - | 952 |
| | (486) | 76 |

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

### 8 Expenses by nature

| | 2012 | 2011 |
|---|---|---|
| The following expenses have been charged in arriving at the profit before income tax: | | |
| Raw materials and consumables used | 116,377 | 129,166 |
| Employee benefits expense (Note 9) | 26,773 | 28,188 |
| Depreciation on property, plant and equipment (Note 12) | 7,075 | 6,191 |
| Auditor's remuneration | 224 | 202 |
| Transport expenses | 5,270 | 5,656 |
| Maintenance costs | 10,620 | 8,396 |
| Other expenses | 28,611 | 25,561 |
| **Total cost of sales, distribution costs, administrative and other costs** | 194,950 | 203,360 |

### 9 Employee benefits expense

The following are included within the employee benefits expense:

| | 2012 | 2011 |
|---|---|---|
| Salaries and wages | 24,272 | 26,580 |
| Defined contribution scheme | 1,605 | 723 |
| National Pension Scheme Authority | 896 | 885 |
| | 26,773 | 28,188 |

### 10 Income tax

| | 2012 | 2011 |
|---|---|---|
| Current income tax | 19,177 | 19,840 |
| Deferred income tax (Note 19) | 274 | 747 |
| Income tax expense | 19,451 | 20,587 |

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:

| | 2012 | 2011 |
|---|---|---|
| Profit before income tax | 54,708 | 57,757 |
| Tax calculated at the statutory income tax rate of 35% (2011: 35%) | 19,148 | 20,215 |
| Expenses not deductible for tax purposes | 303 | 372 |
| Income tax expense | 19,451 | 20,587 |

**Current income tax movement in the statement of financial position**

| | 2012 | 2011 |
|---|---|---|
| At start of the year | 5,674 | 3,425 |
| Charge for the year | 19,177 | 19,840 |
| Paid during the year | (22,716) | (17,591) |
| At end of the year | 2,135 | 5,674 |

Income tax assessments have been agreed with the Zambia Revenue Authority (ZRA) up to and including the year ended 31 March 2003. A self assessment system for income tax was introduced for periods subsequent to 31 March 2003. Income tax returns have been filed with the ZRA for the years prior to 31 March 2011. Quarterly tax payments for the year ended 31 March 2012 were made on the due dates during the year.

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

## 11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2012 | 2011 |
|---|---|---|
| Profit attributable to equity holders of the Company (K 'millions) | 35,257 | 37,170 |
| Weighted average number of ordinary shares in issue ( 'millions) | 63 | 63 |
| Basic earnings per share (K) | 560 | 590 |

There were no potentially dilutive shares outstanding at 31 March 2012 and 2011. Diluted earnings per share are therefore the same as basic earnings per share.

## 12 Property, plant and equipment

| | Buildings | Plant & vehicles | Furniture and Fittings | Capital work in progress | Total |
|---|---|---|---|---|---|
| **At 1 April 2010** | | | | | |
| Cost | 8,331 | 40,250 | 4,815 | 838 | 54,234 |
| Accumulated depreciation | (2,496) | (16,400) | (3,455) | - | (22,351) |
| Net book amount | 5,835 | 23,850 | 1,360 | 838 | 31,883 |
| **Year ended 31 March 2011** | | | | | |
| Opening net book amount | 5,835 | 23,850 | 1,360 | 838 | 31,883 |
| Additions | - | 4,032 | 255 | 5,442 | 9,729 |
| Disposals | - | (53) | - | (7) | (60) |
| Transfers | 345 | 4,195 | 140 | (4,680) | - |
| Depreciation charge | (421) | (5,154) | (616) | - | (6,191) |
| Closing net book amount | 5,759 | 26,870 | 1,139 | 1,593 | 35,361 |
| **At 31 March 2011** | | | | | |
| Cost | 8,665 | 48,035 | 5,209 | 1,593 | 63,502 |
| Accumulated depreciation | (2,906) | (21,165) | (4,070) | - | (28,141) |
| Net book amount | 5,759 | 26,870 | 1,139 | 1,593 | 35,361 |
| **Year ended 31 March 2012** | | | | | |
| Opening net book amount | 5,759 | 26,870 | 1,139 | 1,593 | 35,361 |
| Additions | - | 218 | 543 | 16,215 | 16,976 |
| Disposals | - | (241) | - | - | (241) |
| Transfers | 300 | 5,989 | 162 | (6,451) | - |
| Depreciation charge | (454) | (6,046) | (575) | - | (7,075) |
| Closing net book amount | 5,605 | 26,790 | 1,269 | 11,357 | 45,021 |
| **At 31 March 2012** | | | | | |
| Cost | 8,953 | 52,517 | 5,914 | 11,357 | 78,741 |
| Accumulated depreciation | (3,348) | (25,727) | (4,645) | - | (33,720) |
| Net book amount | 5,605 | 26,790 | 1,269 | 11,357 | 45,021 |

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

### 12 Property, plant and equipment ( continued)

Construction work in progress as at 31 March 2012 mainly comprises expansion works on the Kitwe plant.

The register showing the details of buildings and land, as required by the Section 193 of the Zambia Companies Act, is available during business hours at the registered office of the Company. In the opinion of the directors, there is no impairment of property, plant and equipment.

### 13 Inventories

| | 2012 | 2011 |
|---|---|---|
| Raw materials | 9,333 | 26,345 |
| Work in progress | 155 | - |
| Finished goods | 1,852 | 289 |
| General stores and consumables | 4,619 | 5,268 |
| | 15,959 | 31,902 |

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to K116,377 million (2011: K 129,166 million).

### 14 Trade and other receivables

| | 2012 | 2011 |
|---|---|---|
| Trade receivables | - | 430 |
| Less: Provision for impairment losses | - | - |
| | - | 430 |
| Amount due from related parties (Note 24) | 5,672 | 3,229 |
| Prepayments and accrued income | 709 | 3,441 |
| Other receivables | 3,471 | 2,197 |
| | 9,852 | 9,297 |

No receivables are past due or impaired. The carrying amount of receivables and prepayments approximate their fair values.

### 15 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following;

| | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents | 9,137 | 4,624 |
| Bank overdraft | - | (11,577) |
| | 9,137 | (6,953) |

The Company had two overdraft facilities with a combined limit of K 20 billion. The facilities were renewable quarterly and were subject to review on 30 June 2011. The bank facilities were unsecured. Interest was payable at the treasury bill rates plus margins of 2.5% and 6%. The effective interest rate on the facilities for the year was 10.5%.

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

### 16 Trade and other payables

| | 2012 | 2011 |
|---|---|---|
| Trade payables | 6,745 | 10,796 |
| Amounts due to related companies (Note 24) | 4,704 | 5,924 |
| Accrued expenses | 5,299 | - |
| Dividends payable | 12,663 | 80 |
| Other payables | 11,935 | 10,493 |
| | 41,346 | 27,293 |

The carrying amounts of payables and accrued expenses approximate their fair values.

### 17 Derivative financial instrument

| | 2012 | 2011 |
|---|---|---|
| Forward exchange contracts | | |
| - Liability | 320 | - |

The derivative financial instruments comprise forward foreign exchange contracts that are not designated as hedging instruments and are considered as trading derivatives. Trading derivatives are classified as a current asset or current liability in the statement of financial position. Derivative financial instruments are presented within the section on operating activities as part of changes in working capital in the statement of cash flows.

The notional principal amounts of the outstanding forward exchange contracts at 31 March 2012 were ZMK 22,289 million (2011: ZMK Nil).

### 18 Share capital

| | Number of shares (Thousands) | Ordinary shares K' million |
|---|---|---|
| Balance at 1 April 2010, 31 March 2011 and 31 March 2012 | 63,000 | 63 |

The total authorised number of ordinary shares is 75 million with a par value of K 1 per share. All issued shares are fully paid.

### 19 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 35% (2011: 35%). The movement on the deferred income tax account is as follows:

| | 2012 | 2011 |
|---|---|---|
| At start of year | 6,380 | 5,633 |
| Charge to profit or loss | 274 | 747 |
| At end of year | 6,654 | 6,380 |

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

### 19 Deferred income tax (continued)

Deferred income tax liabilities and deferred income tax charge in the statement of comprehensive income are attributable to the following items:

| Year ended 31 March 2012 | 1.4.2011 | Charged to profit or loss | 31.03.2012 |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | 6,380 | 274 | 6,654 |

| Year ended 31 March 2011 | 1.4.2010 | Charged to profit or loss | 31.03.2011 |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | 5,633 | 747 | 6,380 |

### 20 Dividends per share

At the annual general meeting to be held on 29 June 2012, a final dividend in respect of the year ended 31 March 2012 of K34.55 (2011: K 326.21) per share amounting to a total of K2,176 million (2011: K20,551million) is to be proposed. This amount has not been included in the financial statements. During the year, an interim dividend of K 245.27 per share (2011: K263.79), amounting to a total of K15,452 million (2011: K16,619 million) was paid. The total dividend for the year is therefore K279.82 per share (2011: K590.00), amounting to a total of K17,629 million (2011: K37,170 million).

Payment of dividends is subject to withholding tax at rates varying between zero and 15% depending on the resident status of the shareholders. Dividends declared by a company listed on the Lusaka Stock Exchange and payable to an individual are exempt from withholding tax.

### 21 Cash generated from operations

| Reconciliation of profit before income tax to cash generated from operations: | 2012 | 2011 |
|---|---|---|
| **Profit before income tax** | 54,708 | 57,757 |
| **Adjustments for:** | | |
| Interest income (Note 6) | (372) | (188) |
| Interest expense (Note 7) | 230 | 876 |
| Depreciation (Note 12) | 7,075 | 6,191 |
| Profit on sale of property, plant and equipment (Note 6) | (461) | (45) |
| Foreign exchange effect | (75) | (18) |
| **Changes in working capital** | | |
| - Trade and other receivables | (555) | (3,649) |
| - Inventories | 15,943 | (2,797) |
| - Trade and other payables | 1,470 | (1,409) |
| - Derivative financial instruments | 320 | - |
| **Cash generated from operations** | 78,283 | 56,718 |

(All amounts are in millions of Kwacha unless otherwise stated)

**Notes (continued)**

## 22 Contingent liabilities

### Legal proceedings

The Company is the subject of a number of legal claims relating primarily to employment issues. In the director's opinion, after taking appropriate legal advice, the outcome of these claims will not give raise to any significant loss.

## 23 Commitments

### Capital commitments

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

| | 2012 | 2011 |
|---|---|---|
| Property, plant and equipment | - | - |

## 24 Related party transactions

The Company is controlled by Heinrich's Syndicate Limited (incorporated in Zambia). The ultimate parent and ultimate controlling party of the Company is SABMiller Plc (incorporated in England and Wales). There are other companies that are related to National Breweries Plc through common shareholdings or common directorships.

The following transactions were carried out with related parties:

| i) Interest on loans to related parties | 2012 | 2011 |
|---|---|---|
| Fellow subsidiary | - | 186 |

The loan was unsecured and interest was charged based on the 182 treasury bill rates plus 200 basis points which is the interest rate National Breweries Plc paid on its borrowings.

| ii) Purchase of services | 2012 | 2011 |
|---|---|---|
| Fellow subsidiaries | 1,181 | 5,737 |

Purchases are based on two long-term contracts for:

- The supply of management and technical services and technical assistance; and
- Licensing of know-how.

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

## 24 Related party transactions (continued)

### iii) Royalties

| | 2012 | 2011 |
|---|---|---|
| Fellow subsidiaries | 1,626 | 7,810 |

Royalties are based on one long-term contract for the use of the Chibuku brand.

### iv) Outstanding balances arising from sale and purchase of goods/services

| | 2012 | 2011 |
|---|---|---|
| **Receivables from related parties** | | |
| Amounts due from fellow subsidiaries | 5,672 | 3,229 |
| **Payables to related parties** | | |
| Amounts due to fellow subsidiaries | 4,704 | 5,924 |

### v) Key management compensation

| | | |
|---|---|---|
| Salaries and other short-term employment benefits | 1,889 | 2,455 |
| Defined contribution expense | 522 | 36 |
| | 2,411 | 2,491 |

### vi) Directors' remuneration

| | 2012 | 2011 |
|---|---|---|
| Fees for services as a director (included in key management compensation above) | 172 | 186 |

## 25 Financial instruments by category

| | Loans and receivables |
|---|---|
| **At 31 March 2012:** | |
| **Assets as per the statement of financial position** | |
| Trade and other receivables (Net of pre-payments) | 9,142 |
| Cash and cash equivalents | 9,137 |
| | 18,279 |

| | Liabilities at fair value through profit or loss | Other financial liabilities at amortised cost | Total |
|---|---|---|---|
| **At 31 March 2012:** | | | |
| **Liabilities as per the statement of financial position** | | | |
| Derivative financial instruments | 320 | - | 320 |
| Trade and other payables (excluding statutory liabilities) | - | 18,570 | 18,570 |
| | 320 | 18,570 | 18,890 |

(All amounts are in millions of Kwacha unless otherwise stated)

## Notes (continued)

## 25 Financial instruments by category (continued)

| | Loans and receivables |
|---|---|
| **At 31 March 2011:** | |
| **Assets as per the statement of financial position** | |
| Trade and other receivables (excluding pre-payments) | 5,856 |
| Cash and cash equivalents | 4,624 |
| | 10,480 |

| | Other financial liabilities at amortised cost |
|---|---|
| **At 31 March 2011:** | |
| **Liabilities as per the statement of financial position** | |
| Trade and other payables (excluding statutory liabilities) | 18,131 |
| Borrowings | 11,577 |
| | 29,708 |

## 26 Comparatives

Where necessary, prior year comparatives for operating expenses within the Statement of Comprehensive Income have been reclassified in line with current year classification.

## Principal shareholders

The ten largest shareholdings in the Company and the respective number of shares held at 31 March 2012 is as follows:

| | Name of shareholder | % | Number of shares |
|---|---|---|---|
| 1. | Heinrich Syndicate Limited | 70.00 | 44,100,000 |
| 2. | Standard Chartered Securities Nominees Ltd | 10.07 | 6,343,281 |
| 3. | Public Service Pension Fund | 8.17 | 5,147,500 |
| 4. | Saturnia Regna Pension Trust Fund | 2.51 | 1,581,144 |
| 5. | National Pension Scheme Authority | 1.98 | 1,200,000 |
| 6. | Local Authorities Superannuation Fund | 1.11 | 700,000 |
| 7. | Madison Pension Trust Fund | 0.41 | 255,163 |
| 8. | Workers Compensation Fund | 0.82 | 514,920 |
| 9. | Mukuba Pension Trust Limited | 0.40 | 250,000 |
| 10. | Standard Chartered Bank Pension Trust Fund | 0.56 | 354,318 |
| | **Total** | **96.03** | **60,446,326** |
| Not selected | | 3.97 | 2,553,674 |

## Distribution of shareholders

| | Number of shareholders | % | Number of shares |
|---|---|---|---|
| Less than 500 shares | 545 | 52.70 | 168,476 |
| 501 – 5,000 shares | 411 | 39.75 | 792,075 |
| 5,001 – 10,000 shares | 36 | 3.48 | 264,924 |
| 10,001 – 100,000 shares | 28 | 2.71 | 930,678 |
| 100,001 – 1,000,000 shares | 10 | 0.97 | 3,671,922 |
| Over 1,000,000 shares | 4 | 0.39 | 57,171,925 |
| **Total** | **1,034** | **100** | **63,000,000** |

*Source: Lusaka Stock Exchange Central Depository*

**CHAIRMAN**
*V Chitalu* *

**DIRECTORS**
*G Sokota**
*G Nel**(Appointed)*
*W Tiedt***
*B Hirsch**(Resigned)*

**DIRECTORS**
*A Malumo** (Appointed)*
*Annabelle Degroot****(Appointed)*
*P Gowero*** (Resigned)*
*G Besson**(Resigned)*

**COMPANY SECRETARY**
*M M. Mutimushi*(Appointed)*
*A Malenga* (Resigned)*

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Citibank Zambia Limited
Stanbic Bank Zambia Limited
Standard Chartered Bank Plc
**Lusaka**

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* Zambian ** South African ***Zimbabwean ****British

**Chibuku Super is the latest National Breweries Plc premium brand – full of goodness with a shelf-life of 21 days and packed in consumer-friendly PET bottles of 600mls and 1litre**



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