



BRANDS

Terra Brands Ltd, the holding company of the Grays cluster, is one of the pioneers in the Mauritian distillation sector, the leading Mauritian producer of premium alcoholic drinks derived from sugar cane, and a top importer and distributor of quality spirits and wines.

Established in 1931, we have diversified our activities to include the distribution and sale of personal and homecare products, pharmaceuticals, snacks and non-alcoholic beverages.

Our purpose is to be the most trusted and sustainable Brand Builder.

BRANDS BUSINESS MODEL







VALUE DRIVERS		CONTEXT AND OUTLOOK
Revenue Driver (Price)	Managing our own brands	<ul style="list-style-type: none"> Our value proposition focuses on our strong brands and our ability to drive efficiencies through a structured route to market.
Creating brand equity	Adding value to third party brands	<ul style="list-style-type: none"> Our core competencies lie in brand building, spirit production, distribution and premium retail. In addition to our well-recognised brand offering in dark spirits (aged, spiced and flavoured rums and Scotch whisky) and white spirits (cane spirit, white rum, vodka, gin and others), we offer global third-party brands in wine, whisky, personal and homecare, pharmaceuticals and food.
	Distribution services	<ul style="list-style-type: none"> We market our brands through all retailers and hotels, and premium wines and spirits through our own 20/Vin outlets, across Mauritius.
Cost Driver (Price)	Integrated and sustainable production	<ul style="list-style-type: none"> We bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added spirits; we invest in energy-saving equipment to optimise production. Distillation effluents are evaporated and turned into renewable bio fertiliser used on Terra's and third-party cane fields. As a vertically integrated company we manage all stages of production onsite, from refining to bottling and packaging, ensuring guaranteed quality for the finished product; we export our expertise through premium rums and bulk spirit to deliver further value from this vertical integration. Activity based costing enables us to derive more profits from our key brands rather than losing focus in being too diversified. We place particular emphasis on nurturing strong relationships with our employees, and on maintaining our position as a recognised employer of choice in the north of Mauritius.
Material cost efficiencies	Supply chain	<ul style="list-style-type: none"> Given the labour-intensive nature of our production and distribution activities, we are currently reviewing internal processes to become a leaner company. Expanding our portfolio with third party brands and management of an import supply chain provides Grays with scope, expertise and volume.

MATERIAL RISKS

- Decrease of purchasing power of consumers following Covid-19.
- Closure of borders leading to a drop in tourism.
- Flammable work environment may cause fire and explosion.
- Supply of molasses may affect production output.
- Changes in regulations related to alcohol and increases in excise duties.
- Mergers and acquisitions on the international markets.

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CAPITAL	MATERIAL INPUTS (2019)	ACTIVITIES TO SUSTAIN VALUE	MATERIAL OUTCOMES (2019)	
PEOPLE 	Employees 566 Outside Mauritius (included in above) 35	<ul style="list-style-type: none"> 9 different types of training organised to enhance the health and safety culture. Emergency Response Team established to improve fire safety culture. Employed new head of production. Executive and leadership development coaching programmes ongoing. 	Injury rate 42 light ones	
MANUFACTURED 	Distillery 1 Existing retail stores (20/Vin) 10 Warehouse space 8,500 m³	Bottling plant 1 Dedicated ageing cellars 1,600 m³	<ul style="list-style-type: none"> Energy saving equipment and new, more efficient boiler. Molasses storage tank. 	
NATURAL 	Molasses 24,094 T (✓3%) Water 75,191 m³ (✓11%)	Alcohol (100%) 729 m³ (✓11%)	<ul style="list-style-type: none"> 100% of distilling effluents transformed into renewable fertiliser. Converting burner in bottling plant to run on non-potable alcohol (a by-product of the distillation process). Extending the range of spirits bottles for recycling. 	Alcohol 6 M L Plastic waste recycled 5 T (✓44%) Glass bottles recovered and reused 4,000,804 units
SOCIAL AND RELATIONSHIP 	Our business model depends on quality relationships in particular with: employees, MRA, Government, brand owners, suppliers and customers.	<ul style="list-style-type: none"> Introduced physical and mental exercises to employees to mitigate stress and other psychosocial hazards. 	Employee turnover rate 21% <i>(2018: 24%)</i> Payment in taxes (Mauritius) MUR 918 M	Recognised as employer of choice. CSR Contribution MUR 2.3 M
INTELLECTUAL 	Own brands 24 Integrated management system underway (ISO 9001, ISO 14001 and ISO 45001).	<ul style="list-style-type: none"> Transitioned ERP to the cloud Further consolidated brand offerings, while actively seeking new opportunities to sustain growth in revenue. 	Progress in securing QSE certification; Fairtrade and Kosher capability.	
FINANCIAL 	Terra Brands total equity (Jan 2019) MUR 687.3 M Total borrowings MUR 656.0 M Capital expenditure MUR 44.2 M	<ul style="list-style-type: none"> Actively managed the financial performance through weekly executive meetings, monthly management meetings and quarterly Board meetings. 	Turnover MUR 2,288.5 M (✓5%) Profit MUR 135.7 M (✓76%) Terra Brands total equity (Dec 2019) MUR 726.1 M	

BRANDS (CONT'D)

THE OPERATING CONTEXT

MATERIAL ISSUE IMPACTING VALUE CREATION OUR RESPONSE

Changing regulations and excise taxes – Increases in the already significant excise duty on alcoholic drinks reduce the affordability of products. Although there was no increase in excise duty this year, this remains a material issue. Stricter regulations on the consumption and advertising of alcohol can also impact demand.

To mitigate these risks, which affect the Mauritian market for alcoholic beverages, we have diversified our product offerings to include both luxurious and more affordable alcoholic beverages, as well as expanding into non-alcoholic wines, ciders and beers, foods and personal care products.

Increasing health consciousness and a greater online presence of consumers – The growing awareness of health-related issues among consumers, and an increasing shift to online shopping, presents both risks and opportunities for our business.

We continually monitor changing consumer tastes and behaviour and strive to refine our product portfolio accordingly. Through our diversification strategy we have identified new opportunities for revenue growth, including specifically in the healthy foods, non-alcoholic drinks and personal care products sectors.

Global mergers and acquisitions – Mergers and acquisitions among global brand owners can potentially impact the availability of our existing offerings.

We have complemented our offering with our own brands, having eight of our 20 best performing brands building long term equity. We have also benefited by obtaining distribution opportunities for new brands following recent mergers and acquisitions.

OUR 2019 PERFORMANCE

Performance was substantially better this year, with the revenue for the year ending at MUR 2,288.5 million, down 5.1% on MUR 2,410.9 million in 2018. Profit after tax was MUR 135.7 million, up on MUR 77.3 million in 2018. The profit growth reflects the benefits both of the substantial investments in the distillery in the prior year, resulting in a very good yield and smooth operation throughout the year, as well as improved margin and efficiencies at Grays Inc..

2020. This will complete the upscaling work of the distillery over the past three years. We are also ready to achieve Fairtrade and Kosher certification and await confirmed orders from customers to get the processes started. We are continuing to work on securing QSE certification of our distillery and brand activities. We managed to dispose 100% of our distilling effluents, which were converted into 25,000 tonnes of renewable fertiliser for use on Terragri (Agriculture) and third-party cane fields.

Production: Investment in the distillery delivers excellent results

The distilling operation performed significantly better this year, following the investments made in 2018 in a new boiler, molasses storage tank and energy-saving equipment. The new boiler ran smoothly, contributing to greater cost efficiency and reduced environmental impact, and enabled electricity savings of 14% with a return on investment as planned. A new production manager and administrative manager also joined the team. This year, our distillery produced 5.99 million litres of rum and spirit, stable year-on-year. Due to improvements in our fermentation processes, we achieved yields of 247 litres of alcohol per tonne of molasses, the highest ever achieved, up 3% on 2018. We also had very successful rum distillation from sugar cane juice, which started two years ago, and we see development of that in the future.

The Competition Commission has requested that our minority partner disinvests from the distillery and we are contemplating acquiring 100% of Grays Distilling.

Brands: Similar sales with growth in key areas and small fall back in others

Despite the continuing tough trading environment, we had another year of positive sales performance in our own and managed brands across the year. Due to a restructuring of the business, whereby we no longer channel exports of Grays Distilling, sales turnover decreased; in 2019 these sales were handled directly by the distilling business. Spirit sales grew, boosted in particular by increased sales of our George Cambridge and Findlaters whisky brands. There was also good growth in wine sales (5.5%) and despite serious supply problems in our snacking business, we still managed to grow the business by 2%. We saw a small fall back in cosmetics due to fewer Chinese tourists, impacting the sales of our L'Occitane product range. This remains a small but growing part of our business.

The shortage of molasses in Mauritius continues to constrain the distillery from producing at full capacity. Following a feasibility assessment in 2019, we have decided to invest in a new fermentation plant, which should be operational as from September

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OUR 2019 PERFORMANCE (CONT'D)

We faced several teething problems in the first couple of months of the ERP transition to a cloud-based solution, but these have been rectified and we are now seeing the benefits of this more versatile way of working. In terms of reducing our environmental impact, our commitment to recycling more spirit bottles led to increase the range of consigned bottles, thus inducing a 2.5% decrease in our turnover; we also invested in our burner enabling it to run on non-potable alcohol (a by-product of the distillation process), moving away from heavy fuel oil towards renewable fuel. We address the full lifecycle of the spirit bottle and recycle all plastic crates, cardboard boxes and aluminium caps.

On the last two days of 2019, cyclone Calvinia caused major disturbance in deliveries at the utmost peak season.

Distribution: Consolidating relationships and revisiting coffee

An important foundation for our strong performance is our ability to manage our value chain and engage directly with the end consumer through our distribution activities. Our 20/Vin network of stores has supported this strategy in the wines and spirits market. This year we opened one new flagship 20/Vin stores in Beau Vallon and relocated and renovated the ones in Bagatelle, and La Croisette, all performing well; we now operate ten stores across the country. This year we were appointed to become the distributors of L'OR and Jacobs coffee ranges, returning to a business that we were involved in a long time ago.

International operations: Good performance and prospects in Seychelles

Our subsidiaries in the Seychelles performed well this year, showing a marked improvement from 2018. We believe that there is valuable growth potential in the retail business and luxury hospitality sector there and see good prospects for 2020, except for the impact of Covid-19.

OUR STRATEGIC OUTLOOK

After a head start in 2020 we are faced with a thorough 'reality check'. It is essential that we consolidate our foundations and get back to basics, by focusing on our core activities and the essence of our business.

Having moved to a cloud-based Enterprise Resource Planning (ERP) in early 2019, our processes are fully digitalised which proved to be essential during the lockdown. All operations that do not need physical human intervention can be done remotely. We are further digitalising our services. Strategies tweaked during lockdown are paying off, with growth of our cane spirit brands (Seven Seas and De Luxe) which should compensate partially for lost revenues in wine and cosmetics, hampered by closed borders and associated economic contraction. Margin erosion due to the sharp and swift decline of the rupee will need close monitoring. We are putting emphasis on 'made in Mauritius' and the importance of local value add. We will continue devoting energies to build efficiencies at all levels of the business.

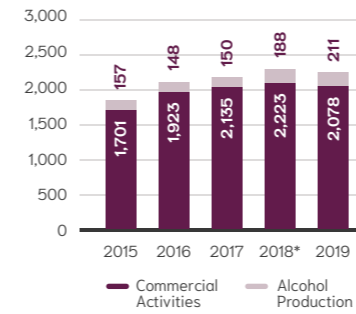
The challenge in 2020 will be to achieve breakeven in the Brands sector, while the distillery should have a normal year. Our outlook for 2020 remains very cautious given the impact of Covid-19 and closed borders, resulting in reduced local consumption. In addition, we anticipate that ripple effects on supply chain will result in lost sales.

The crux in 2020 will be to stay agile, as the 'new normal' is evolving daily and will continue for the foreseeable future, before establishing new consumption patterns and lifestyle, sprouting opportunities. We will maintain our high employee engagement and good human resources by keeping our personnel motivated and unlocking and growing talent. We will continue to identify more opportunities to optimise manpower structures and processes in order to further improve cost efficiencies, including the launch of work improvement teams.

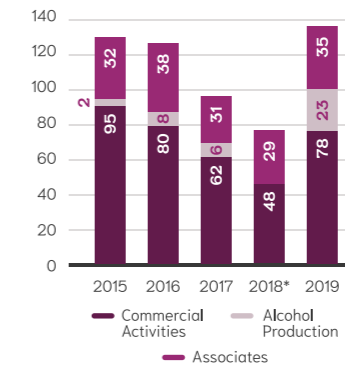
BRANDS (CONT'D)

PERFORMANCE GRAPHS

Turnover (MUR'M)

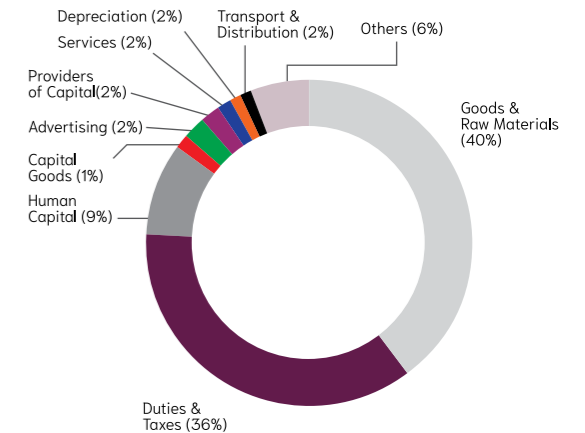


Profit after Tax (MUR'M)

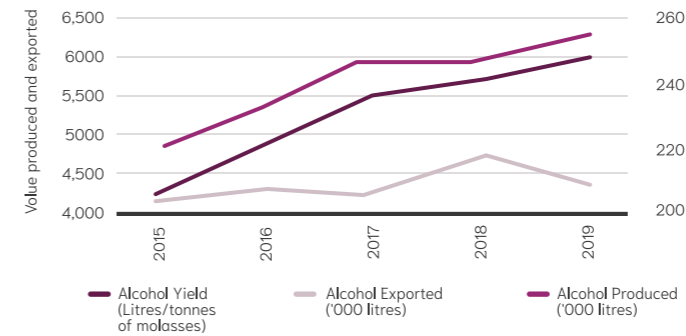


*: The 2018 figures have been restated.

Use of funds by Category



Distilling – Alcohol yield, Production and Export



Sales by Brand

