

OUR PURPOSE

We build leading brands in our markets, and we market the spirit of our brands internationally

OUR BUSINESS MODEL

Our value proposition focuses on our strong brands and our ability to drive efficiencies through a structured route to market. Our core competencies lie in spirit production and distribution, brand building and premium retail. Through our efficient distribution activities, we bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added spirits.

In addition to our own 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 care products and snacks. We market our wines and spirits through our own 20/Vin outlets, as well as through selected retailers and hotels across Mauritius. As a vertically integrated company we manage all stages of production locally, from refining to bottling and packaging, ensuring guaranteed quality for the finished product. We have recently begun to export our expertise into other sugar-producing countries to deliver further value from this vertical integration.

Given the labour-intensive nature of our production and distribution activities, 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.

Terra Brands Ltd, the holding company of the Grays cluster, is one of the pioneers in the Mauritian distillation sector, the leading local producer of 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 care and cosmetics to the end consumer.

CAPITAL

People



MATERIAL INPUTS (2018)

633 employees
34 outside Mauritius (including above)

MATERIAL OUTCOMES (2018)

Injury rate: 21.0

Manufactured



6 million litres of alcohol at the distillery
6 existing stores
7,000 m³ of warehouse space
1,600 m³ of dedicated ageing cellars

1 new store in the year
1,500 m² of new warehouse space in the year

Natural



24,888 tonnes of molasses ▼ 1.7%
817 m³ of alcohol (100%) ▲ 7.8%
84,044 m³ water ▼ 6.6%

31.5 tonnes of glass bottles recycled ▼ 41%
9.0 tonnes of plastic waste recycled ▼ 18%

Social



Our business model depends on quality relationships in particular with: employees, MRA, Government, brand owners, suppliers and customers

23.9% employee turnover (2017: 24.4%)
Recognised as employer of choice
MUR 699.8 million payment in taxes (Mauritius)
MUR 2.5 million CSR contribution

Intellectual



24 own brands

5 new brands established
74 previous brands discontinued
Progress in securing QSE certification

Financial



Terra Brands total equity (Jan 2018):
MUR 543.6 million
Total borrowings: MUR 679.7 million
Capital expenditure MUR 114.8 million out of which 60.0 million in distillery improvements

Turnover: MUR 2,410.9 billion ▲ 5.2%
Profit: MUR 83.7 million ▼ 17.3%
Terra Brands total equity (Dec 2018):
MUR 549.7 million
Net cash and cash equivalents:
MUR 151.8 million

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 locally. 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 full local market for alcoholic beverages, we have diversified our product offerings to include both luxurious and more affordable alcoholic products, as well as expanding into 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 and personal care products sector.

Global mergers and acquisitions – Mergers and acquisitions among global producers of our branded products can potentially impact the availability of our existing offerings.

We have diversified our products to include locally developed brands, with eight of our twenty best performing brands now developed in-house or acquired. We have benefited by obtaining distribution opportunities for new brands following recent mergers and acquisitions.

OUR 2018 PERFORMANCE

We achieved further steady growth in turnover, with the year ending at MUR 2,410.9 million, up 5.2% on MUR 2,285.4 million revenue in 2017. Profit after tax was MUR 83.7 million, down on MUR 101.2 million in 2017. The decrease reflects continuing pressure driven by consumer sophistication, with an increasingly competitive market and rising labour-related costs constraining margins, coupled with the disposal of 70% of our subsidiary in Uganda and non-recurring expenditures. We also faced unexpected logistical challenges in the supply chain this year, negatively impacting costs.

BRANDS: PLEASING SALES IN A CHALLENGING OPERATING ENVIRONMENT

Despite the tough trading environment, we had another year of positive sales performance in our own and managed brands across the year. Spirit sales grew, boosted in particular by increased sales of Scotch whisky, reflecting changing consumer tastes. There was also solid growth in wine sales and personal care products, as well as significant growth in the export of our branded rum. To broaden our portfolio of premium aged rum, we have invested in a new subsidiary named 'Beau Plan Cellars', designed at ageing rum for third parties to promote the 'Mauritius Origin' and maximise value in this segment. The first phase started in 2018 and will be completed by the end of 2019. Introductory products, which were developed in our New Grove cellar, met great interests from potential buyers.

DISTRIBUTION: CONSOLIDATING RELATIONSHIPS

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. The launch and expansion of our 20/Vin network of stores have supported this strategy in the wines and spirits market. This year we opened one new flagship 20/Vin store in Cascavelle; we now operate ten stores across the country.

PRODUCTION: INVESTMENT IN THE DISTILLERY DELIVERS RESULTS

This year, we made a substantial investment of MUR 60.0 million in a new boiler and molasses storage tank, as well as further investments in energy-saving equipment. The new boiler was commissioned early 2019, late but within budget, and will contribute to greater cost efficiency and reduced environmental impact. In 2018, our distillery produced 6 million litres of rum and spirit, equivalent year-on-year because of limited molasses supply. Due to improvements in our fermentation processes, we achieved yields of 240 litres of alcohol per tonne of molasses, up 2% on 2017; we anticipate further yield improvements in 2019. The shortage of molasses in Mauritius currently constrains the distillery from producing at full capacity. We are investigating the feasibility of installing a new fermentation plant, and we are continuing to work on securing QSE certification of our distillery and brand activities.

INTERNATIONAL OPERATIONS: POSITIVE OUTLOOK FOR SEYCHELLES

Despite a challenging year with our wine and spirits operation in the Seychelles, we believe that there is valuable growth potential in the retail business and luxury hospitality sector. We are confident of delivering positive growth under the leadership of our highly experienced new Managing Director, appointed late in 2018. Following the recent disappointing performance of our Uganda venture, which primarily distributes imported spirits and our own locally manufactured gin, we have divested from most of the business, and remain only as a minority shareholder.

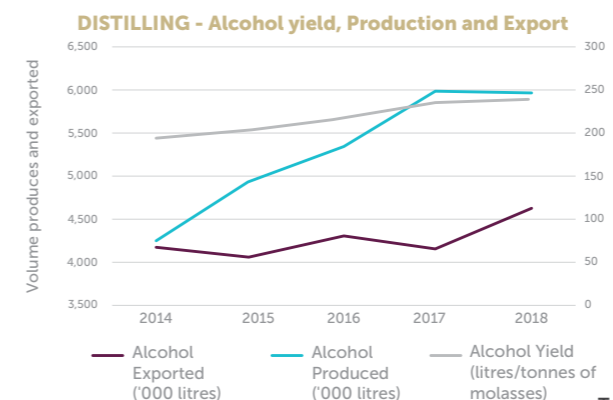
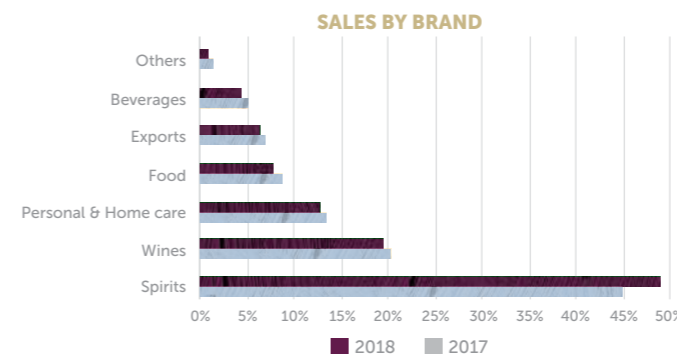
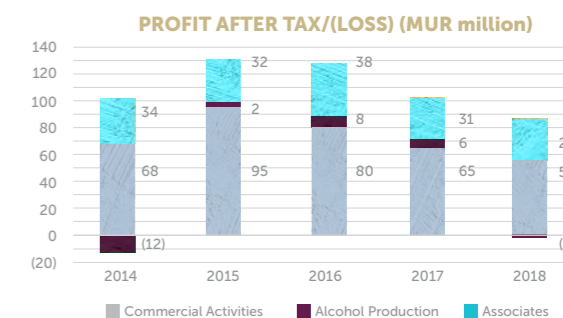
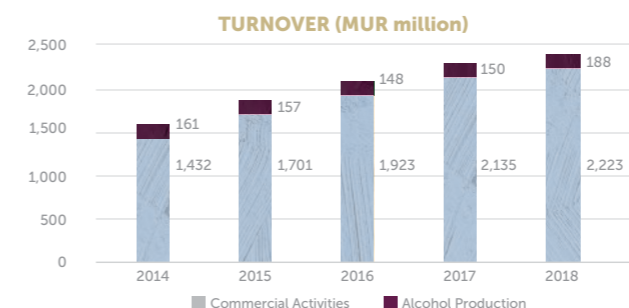
OUR STRATEGIC OUTLOOK

For the year ahead we will be further consolidating our brand offerings in wine and spirits, ensuring an optimised product mix that focuses on our high net-contribution activities, as well as

looking to realise additional growth opportunities in the food and snacks and personal care and cosmetics businesses. In addition to driving growth in Scotch whisky sales in the local market, we will be promoting the development of more specialised products, such as 'pure cane' rum ('*rhum agricole*') and specialised aged rums for export. Following the first phase of 'Beau Plan Cellars', we plan to continue with phase two and three over the next five years, investing up to MUR 250.0 million. Sales will only start in year three and reach sustainable levels in year five.

We will continue to identify opportunities to drive further efficiencies across our supply chain, lowering freight and handling costs, optimising store layout and enhancing stock management through demand-driven management resources planning. We will also be seeking to improve efficiencies in the recruitment and retention of committed sales and marketing personnel. For our international operations, our primary focus will be driving revenue growth in the Seychelles market.

PERFORMANCE GRAPHS



USE OF FUNDS BY CATEGORY

