BRANDS

Established in 1931, Terra Brands Ltd, the holding company of the Grays cluster, is one of the pioneers in the Mauritian distillation sector, a local leader in importing and distributing quality spirits and wines, and the leading producer of alcoholic drinks derived from sugarcane. Over the past decades, we have diversified our activities to include the distribution and sale of personal care, and cosmetics to the end consumer.

Our business model

Our customer value proposition is centred on adding value through strong brands, and driving efficiencies through a better route to market. Our core competencies lie in spirit production and distribution, brand building and premium retail. Through our distribution activities we bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added products such as spirits.

We have developed our own well-recognised brand offerings in dark spirits (aged, spiced, flavoured rums and Scotch Whisky) and white spirits (such as cane spirit, white rum, vodka, gin and others), and have expanded this portfolio with global third-party brands in wine, whisky, personal care products and snacks. We market our wines and spirits through our network 20/Vin outlets, and we have developed strong relationships with retailers to ensure the effective coverage of our brands across Mauritius. As a vertically integrated company, we exercise control on all stages of local production – from refining to bottling and packaging – guaranteeing a seal of quality to the finished product. We are looking to export our expertise into other sugar producing countries to manage this vertical integration.

As our production and distribution activities are labour intensive, we place a high priority on nurturing strong relationships with our more than 500 employees. Grays has become recognised as an employer of choice in the north of Mauritius.

> We build leading Brands in our markets and market the spirit of our Brands internationally

CAPITAL	MATERIAL INPUTS (2017)	MATERIAL OUTCOMES (2017)
People	655 employees 93 outside Mauritius (included in the above)	Injury rate: 21.1 14 new specialist skilled staff recruited
Manufactured	6 million litres at distillery Six existing stores 5,000 m³ of warehouse space 5,500 m³ of ageing cellars	MUR 60 million planned investment in upgrading distillery Two new stores in the year 1,100 m³ of new warehouse space under construction
Natural	25,323 tonnes of Molasses 758 m³ of alcohol (100%)	53 tonnes of glass bottles recycled 11 tonnes of plastic waste recycled
Social	Our business model depends on maintaining quality relationships with key stakeholders including: MRA, employees, Government, brand owners, suppliers and customers	24.4% employee turnover rate Recognised as employer of choice MUR 627.1 million payment in taxes (Mauritius) MUR 2.2 million of CSR contribution
Intellectual	24 own brands	Five new brands established 74 previous brands discontinued Progress in securing HSEQ certification
Financial	Acquisition of new subsidiary – MUR 33.9 million Purchase of Plant and Equipment – MUR 35.3 million New buildings – MUR 37.1 million Purchase of intangible assets (Brand) – MUR 10.7 million Terra Brands total equity – MUR 854.2 million	Turnover: MUR 2.3 billion (10.3% increase) Profit: MUR 125.3 million (stable)

MATERIAL ISSUE IMPACTING VALUE CREATION	OUR RESPONSE
Increasing excise taxes – Yearly increase in the excise duty rate levied on alcoholic drinks results in price hikes, reducing the competitiveness of products on the local market.	To mitigate this risk, which affects the whole market, we have diversified our product offerings to include both luxurious brands and affordable products.
Global mergers and acquisitions – Mergers and acquisitions on international markets potentially impact the nature of our existing brand offerings.	We have diversified our offerings to include locally developed brands: eight of the 20 best performing brands are developed in-house. We have also benefited by obtaining distribution opportunities for new brands following recent mergers and acquisitions.
Increasing health consciousness of consumers – Growing health awareness among consumers of health-related issues is both a risk and an opportunity.	We regularly track changing consumer behaviour and tastes, and have recently approved a diversification strategy to actively seek new opportunities for revenue growth, including specifically in the healthy foods and personal care products sectors.

BRANDS

Our 2017 performance

This year was another year of steady growth in turnover, with the year ending at MUR 2,285.4 million, up from MUR 2,071.6 million in 2016. Profit after tax remained flat at MUR 125.3 million, compared to MUR 125.4 million in the prior year. This reflects the generally lower levels of consumer confidence, with an increasingly competitive market and higher local taxes placing pressure on margins.

Brands: Simplifying our business model

We made satisfactory progress this year in revising our brand portfolio, ensuring greater efficiencies by focusing on our stronger performing brands. Informed by a comprehensive activity-based costing exercise, we reduced the number of our brand offerings by 22% and stock keeping units by 55%, resulting in positive efficiency gains and ensuring that we focus on an optimum product mix.

Overall we saw a good performance from our own and managed brands across the year. Our Seven Seas brand retained its position as the leader in the premium cane liquor market and as the main source of revenue growth for the Group in this segment. The recently launched brand, Lazy Dodo, developed in a joint-venture with French partners, had a solid year, helping to increase our overall sales potential. To broaden our portfolio of premium aged rum, we have continued to develop the ageing process and our cellars, with the aim of maximising value in this segment. We saw steady growth in our imported whisky and wine offerings, as well as positive results from our diversification strategy, with our recently launched M.A.C. cosmetics business delivering particularly encouraging performance.

Distribution: Consolidating relationships

A cornerstone of our success has been our ability to exercise control over the value chain, by reaching out to the end consumer through our distribution activities. The launch and expansion of our 20/Vin network of stores has supported this strategy in the wines and spirits market. In 2017, we opened a new 20/Vin store, bringing the number of stores we operate to nine.

Production: Driving improved HSEQ performance in the distillery

This year our distillery produced 6 million litres of rum and spirit, 75% of which is for the export market. A key challenge was the reduced allocation of molasses from the Mauritian Control and Arbitration Department (MCIA), with the result that we did not operate at full capacity for the year. We are making significant investments in 2018 to improve the operation of our distillery, including substantial investments in a new molasses storage tank and a new boiler, as well as further investment in energy-saving equipment. Full benefits will be tangible in 2019. We are investigating the feasibility of installing a new fermentation plant and are continuing to work towards securing the HSEQ certification of our distillery and brand activities.

International operations: A year of mixed fortunes

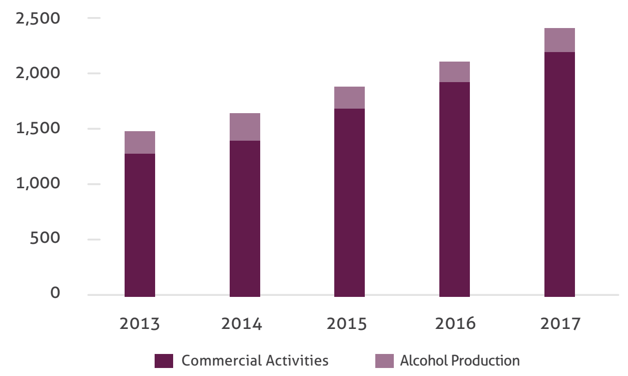
Unfortunately our Uganda venture, which primarily distributes imported spirits and our own locally manufactured gin, has had another disappointing year. We are reassessing our activities in the country and considering various options for the way forward. We are making positive progress with our wine and spirits operation in the Seychelles, where we are looking to grow our retail business and make further inroads into the luxury hospitality sector, under the leadership of a new Managing Director.

Our strategic outlook

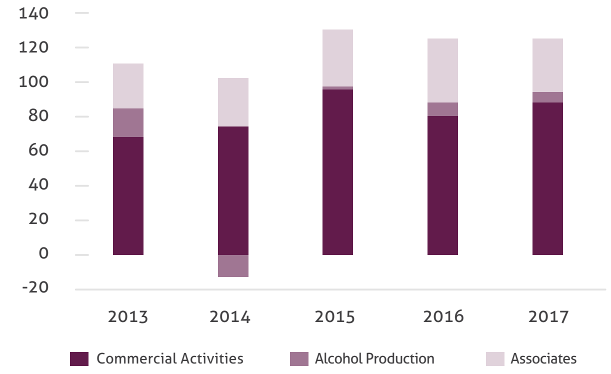
Our immediate strategic objectives are to simplify our business model, using the outcomes of our activity-based costing exercise to further streamline our brand offerings and ensure a better product mix that focuses on our high net-contribution activities. We will continue to identify opportunities to improve our distribution channels, lowering freight and handling costs, optimising store layout and securing other efficiencies across our supply chain. We will also be seeking to improve efficiencies in our recruitment and retention of committed sales and marketing personnel. For our international operations, we will be reviewing our Uganda business, and driving revenue growth in our Seychelles market.

Performance graphs

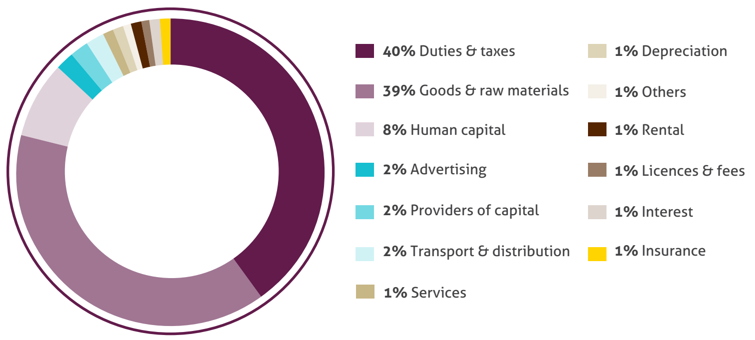
Turnover (MUR'M)



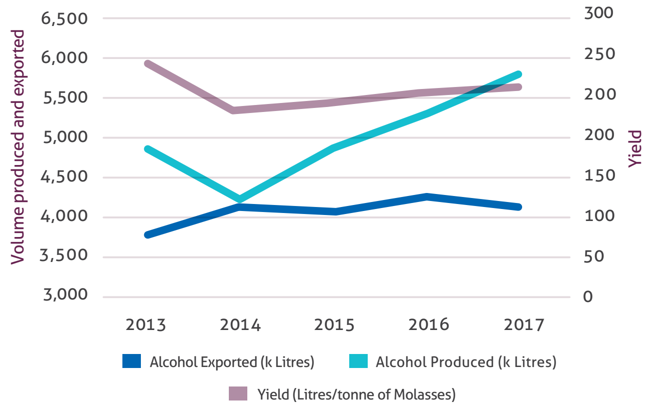
Profit after Tax (MUR'M)



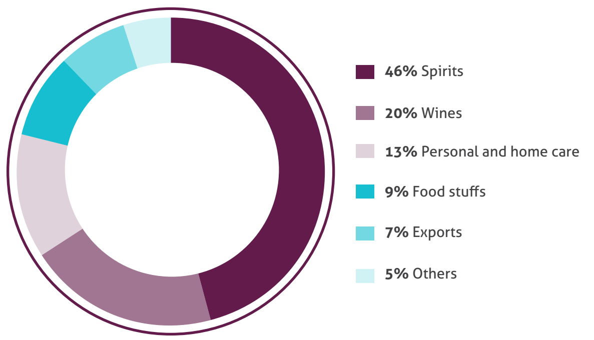
Use of funds by category



Distilling - Alcohol yield, Production and Export



Sales by brand



Brands culled