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 distributer 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)	
CREATING BRAND EQUITY • Managing our own brands • Adding value to third party brands • Distribution services	• Our value proposition focuses on our strong brands and our ability to drive efficiencies through a structured route to market with an emphasis on local products. • Our core competencies lie in brand building, spirit production, distribution and premium retail. We are adapting to global supply chain issues by shifting away from Just-In-Time to building up stocks. • 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. • We market our brands through all retailers and hotels, and premium wines and spirits through our own 20/Vin outlets, across Mauritius. We are also expanding our franchised luxury cosmetics stores.
COST DRIVER (PRICE)	
MATERIAL COST EFFICIENCIES • Integrated and sustainable production • Supply chain	• We bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added spirits; the sugar crop is on a declining trend, amplified by climatic conditions, which proportionately reduces molasses supply and impacts on distillery profitability. • 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 cluster 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 spirits 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, unlocking talent and on maintaining our position as a recognised employer of choice in the north of Mauritius. • Given the labour-intensive nature of our production and distribution activities, digitalisation is at every step of our operations and services moving us towards a leaner company. • Expanding our portfolio with third-party brands and management of an import supply chain provides Grays with scope, expertise and volume. • Availability of shipping lines, port efficiency (in-bound and out-bound), duties and weak valuation of the MUR are cost drivers and we are moving into a challenging cycle in 2022. Supply chain disruptions can impact costs in three ways: import of raw materials, import of finished goods, and export of finished products.

Brands (cont'd)

BRANDS BUSINESS MODEL (CONT'D)

The main residual risks for the Cane cluster as at 31 December 2021 are summarised below.

	RISK	CONTRIBUTING FACTORS	RISK MITIGATING ACTIVITIES	YEAR ON YEAR TREND
R1	Economic impact due to the pandemic, resulting in loss of revenue from tourism and related activities.	• Acute erosion of purchasing power of local consumers. • Lack of visibility over timing and speed of recovery from pandemic. • Disruption in the supply of imported items. • Loss of sales from the recovering tourism sector.	• Improved on-line offering including the launch of an App. • Widening and specialised offering for the recovering tourism industry. • Alternative sourcing to restore supply chain.	Reduced
R2	The scarcity of molasses disrupts the distillery operations leading to loss of profit and failure to meet client needs.	The supply of molasses will follow the downward trend in the overall supply of cane.	The Mauritius Cane Industry Authority ensures an equitable sharing of molasses produced amongst the distilling companies on the island.	Unchanged
R3	The representation of brands is lost due to mergers and/or acquisitions.	None.	• Of the 20 best performing brands, eight are developed in-house. • Grays is constantly looking for new product opportunities.	Unchanged

BRANDS BUSINESS MODEL (CONT'D)

CAPITAL	MATERIAL INPUTS (2021)[1]	ACTIVITIES TO SUSTAIN VALUE	MATERIAL OUTCOMES (2021)
PEOPLE	EMPLOYEES **542** OUTSIDE MAURITIUS (INCLUDED IN ABOVE) **40**	• Refresher training and more frequent visible on-site inspections to address minor injuries from lifting heavy items with improper technique. • Safety measures and procedures in place in response to Covid-19 continued, with the introduction of shifts for teams. • Executive and leadership development coaching programmes ongoing. • Implementation of a learning culture.	TOTAL RECORDABLE INJURY RATE (TRIR)[2] **32** **(+3%)** LOST TIME INCIDENT RATE (LTIR)[2] **168** **(+1%)** SEVERITY RATE [2] **32.6** **(+1%)**
MANUFACTURED	DISTILLERY **1** BOTTLING PLANT **1** EXISTING RETAIL STORES (*20/VIN*) **10** WAREHOUSE SPACE **8,500 m³** DEDICATED AGEING CELLARS **1,600 m³**	• New fermentation house that has automated a lot of processes.	
NATURAL	MOLASSES **17,772 T** **(-26%)** ALCOHOL (100%) **420 m³** **(-25%)** WATER **54,059 m³** **(+19*%)**	• Approved budget for solar panels at Grays Inc. to reduce electricity consumption by 50%. • Set up a committee to reduce carbon footprint significantly. • An environmental risk assessment conducted to identify priority areas for improving environmental performance.	ALCOHOL **4.5 million litres** GLASS BOTTLES RECOVERED AND REUSED **1.3 million units** **(+65%)** PLASTIC WASTE RECYCLED **5.5 T** **(-4%)**

[1]Data as at 31 December 2021
[2]Calculation methodology was updated in 2021

Brands (cont'd)

BRANDS BUSINESS MODEL (CONT'D)

CAPITAL	MATERIAL INPUTS (2021)[1]	ACTIVITIES TO SUSTAIN VALUE	MATERIAL OUTCOMES (2021)
SOCIAL AND RELATIONSHIP	Our business model depends on quality relationships, particularly with employees, MRA, Government, brand owners, suppliers and customers.	• Dedicated teams working from home and regular engagement with the workforce.	EMPLOYEE TURNOVER RATE **18.6%** **(2020: 18.3%)** Recognised as employer of choice. PAYMENT IN TAXES (MAURITIUS) **MUR 828 million** CSR CONTRIBUTION **MUR 5 million**
INTELLECTUAL	OWN BRANDS **24** Integrated management system underway (ISO 9001, ISO 14001 and ISO 45001)	• Further digitalised our services. • Further consolidated brand offerings, while actively seeking new opportunities to sustain growth in revenue, with a particular emphasis on locally produced products.	Progress in securing QSE certification; Fairtrade and Kosher capability.
FINANCIAL	TERRA BRANDS TOTAL EQUITY (JAN 2021) **MUR 712.1 million** TOTAL BORROWINGS **MUR 477 million** CAPITAL EXPENDITURE (SUBSIDIARIES) **MUR 67.5 million**	• Actively managed the financial performance through weekly executive meetings, monthly management meetings and regular Board meetings.	TURNOVER **MUR 2,182.8 million (+3%)** PROFIT **MUR 136.5 million (+34%)** TERRA BRANDS TOTAL EQUITY (DEC 2021) **MUR 811.8 million**

THE OPERATING CONTEXT

MATERIAL ISSUE IMPACTING VALUE CREATION	OUR RESPONSE
Covid-19 – Continued to hinder performance, but in 2021 we were better prepared. The main impacts were from the supply chain disruptions and 10% increase in duty costs, as well as the depreciation of the Mauritian Rupee, which took effect in 2021, increasing prices drastically. A cartel of major shipping lines drove prices up significantly, the cost of freight from China also increased 12-fold, and there were challenges around raw material and product availability, coupled with the inefficiency of the Mauritian ports. Continued to see loss of sales from the tourism sector, but with the opening of borders in the last three months of the year, wine sales increased significantly. Purchasing power of local consumers continued to be eroded, yet the informal economy kept consumption going during the lockdown period. We predict a recovery by the second quarter of 2023, but the Ukraine war will also have an impact.	All the measures taken in 2020 brought good results in 2021, and the team continued to react quickly with everyone working towards the same goal. We found alternative ways to sell to end clients, including through online sales via an App that was initiated in 2020 and completed in 2021. In response to the supply chain challenges, we have started to build stocks and aim to use the situation to capitalise on new opportunities. We continue to place more emphasis on locally manufactured products and encouraging consumers to buy 'made in Mauritius'.
Changing regulations and excise taxes – Increases in the already significant excise duty on alcoholic drinks reduce the affordability of products locally. Duty increased by 10% this year, coupled with the devaluation of the Mauritian Rupee and rising prices for raw materials and finished products. With disposable income remaining the same, all of this combined led to pressure on the consumer. 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 regulations – The growing awareness of health-related issues among consumers and regulators, presents both risks and opportunities for our business. The latest Public Health Act Regulations, promulgated on 06 July 2021, are overwhelmingly restrictive. While overall market volumes will not be impacted, this does downgrade consumption to cheaper products, categories in which we do not compete. We are awaiting feedback from authorities, delayed due to Covid-19, for clarification on corporate and BtoB communication.	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. We have increased our non-alcoholic offering including non-alcoholic cider and extended our range of alcohol-free wines. We are also placing more emphasis on organic and biodynamic wines. We replaced our chips range with Sibell, a range of organic chips, moving towards a healthier offering. We have invested in advertisements on social media that encourage people not to drink and drive, and to raise awareness on domestic violence.
Global mergers and acquisitions – Mergers and acquisitions among global brand owners can potentially impact the availability of our existing offerings. PepsiCo consolidating their business with PepsiCo distributors led to us losing Lays, Doritos and Quaker as of September 2021, affecting 12% of sales, with the full effect to be felt in 2022.	We have complemented our offering with our own brands, which make up eight of our 20 best performing brands, building long term equity. Our strategy remains to place more emphasis on 'made in Mauritius' and local products.

Brands (cont'd)

OUR 2021 PERFORMANCE

Despite the tough operating environment, performance in our Brands sector improved this year, primarily due to an increase in local demand particularly from the informal sector, and the opening of our borders in the last three months of the year. With the increase in our shareholding at distillery level, we now have greater control of these operations, which remain profitable, and this contributes to our overall performance. The Brands' revenue for the year ended at MUR 2,182.8 million, up 3% on MUR 2,109.6 million in 2020. Profit after tax was MUR 136.5 million, up on MUR 102.2 million in 2020.

PRODUCTION: THE DISTILLERY PERFORMANCE IMPACTED BY REDUCED MOLASSES

This is the second year of a short sugar crop and with decreased molasses volumes, this impacted performance at the distillery, leading to a decrease in profitability. Nevertheless, with the new fermentation house that became operational in the second half of the year we have automated a lot of processes, which has improved efficiency in the production of alcohol. We achieved yields of 237 litres of alcohol per tonne of molasses, up 3% on 2020. Our main concern remains a much-needed improvement in volumes of sugar cane. Our distillery produced 4.5 million litres of rum and spirit, down by 15% year-on-year due to molasses shortages.

We are continuing to work on securing QSE certification of our distillery and brand activities and have taken measures to improve the wellbeing of our employees. Unfortunately, we experienced one serious incident with an external service provider, and we have taken additional steps to prevent and mitigate these risks. Water scarcity and potable water supply remain key concerns for Mauritius, and we improved performance through rainwater harvesting measures implemented in 2020, to cover up to 20% of needs. We have set up a committee at Grays to focus on environmental performance, with an intention to reduce our carbon footprint significantly.

We also acquired, in early 2022, the minority 33% stake in Grays Distilling shares to become the sole owner, which brings a lot of synergy in our premium brand business and simplifying of processes, maximising benefits.

BRANDS: SALES IMPROVED WITH THE OPENING OF BORDERS IN THE LAST THREE MONTHS OF THE YEAR

All our top brands performed well from a low base in 2020, and the efforts on cost cutting bore fruit in 2021. While we were expecting borders to open sooner, given the circumstances, we had a fairly good year. The main factor that hindered performance was supply chain related. Major supply chain issues in Mauritius over the past 12 months – including the lack of service lines coming to the island and containers taking three times longer to get here, as well as poorer efficiency of the port – presented significant logistical problems for Grays. This impacted on the import of finished goods and raw materials, as well as the export of finished products. This year was also marked by a 10% increase in duty costs coupled with the depreciation of the Mauritian Rupee, with prices rising drastically. Despite all this, we still had a fair performance.

With closed borders for most of the year, we were able to evaluate the extent of the informal economy, which kept consumption going during that period.

The significant sales volumes we gained in 2020 in our cane spirit brands (Seven Seas and De Luxe), we lost in 2021 due to rising prices. Our whisky brands, Cambridge and Grants, performed well, but unfortunately performance was hindered by supply chain disruptions. The reopening of the borders in the last few months of the year was excellent for business, with an increase in wine sales within the first couple of weeks of the reopening. The food sector and coffee brands did well despite us losing the PepsiCo portfolio. Following a strategic business decision, PepsiCo decided to consolidate all its business with one distributor in Mauritius. As a result, they did not renew our Distribution Agreement, namely for Lays, Doritos and Quaker, with no sales post 15 October 2021. Snacks was one of the few business units which grew during the Covid-19 period and accounted for 12% of our sales in the first semester 2021. The real impact of this decision will be felt in 2022 and we have substitute products already lined up for replacement.

Cosmetics, including perfumes and toiletries, performed well, as did our health-related brands. The only drawbacks were the supply chains issues.

OUR 2021 PERFORMANCE (CONT'D)

Our premium rum brand, New Grove, performed well, benefitting from the '*Canne d'Or*' award that we won in 2020. Our New Grove 10YO and Mauricia L'Intendance were both finalists in the international sugar cane spirits award (ISSA) in 2021.

We closed two boutique stores but have signed with Beauty Success – a franchise store for luxury perfumes and cosmetics – and we opened our first store in May 2022, as part of our expansion into franchised luxury cosmetics stores. We also opened stores in the Mahogany Shopping Promenade in Beau Plan, which has been welcomed by consumers.

Overall, we saw an increase in profitability from MUR 15 million to MUR 63 million, which, given the circumstances, was very encouraging.

The latest Public Health Act Regulations, promulgated on 06 July 2021, are overwhelmingly restrictive, and we are seeking clarifications from authorities with regards to corporate and BtoB communication, which are seemingly banned. The new regulations will hamper competition and lead to consumption of cheaper products, categories in which we do not compete, but will not affect overall market volumes.

In terms of reducing our environmental impact, in late 2021 we approved a budget for solar panels at Grays Inc. to meet up to 50% of our electricity needs, to be implemented in 2022. The remaining energy at Grays Inc. comes from a renewable energy source from the distillery, which has been in place since 2019. A key initiative this year was the implementation of a more structured waste management procedure, including clear waste separation, better communication and more diligent record keeping. Plastic waste production declined from 5.7 to 5.5 tonnes, along with a 25% reduction in the generation of general non-hazardous domestic waste.

INTERNATIONAL OPERATIONS: IMPROVED PERFORMANCE AND A PROFITABLE YEAR IN SEYCHELLES

Financial performance for our subsidiary company in the Seychelles, which focuses on wines and spirits, improved in 2021 and there was no financial assistance from the Government to cover part of salaries this year. The company performed well under the leadership of the new CEO, who was appointed in March 2021, pulling the team towards the same goals. Profit after tax stood at SCR 5.7 million (MUR 17.6 million) compared to SCR 6.4 million in 2020 (MUR 12.6 million) (47% was financial assistance) with the Seychelles Rupee appreciating in 2021. Our portfolio of wine and spirits brands remains strong, led by Jameson and Grant's for spirits, and Nederburg and Saints in wines, with strong positions in the traditional trade. Tourist arrivals in Seychelles reached 47% of 2019 levels, which was very encouraging, and this benefited the economy.

OUR STRATEGIC OUTLOOK

We would not have achieved such good performance in 2021, had it not been for the outstanding work of the team. Our employees continued to work long hours with a high level of collaboration between departments, showing great agility and a strong sense of belonging in what continued to be a tough year. Everyone worked towards the same goal.

Long-term growth, hindered by the step back in 2020 but with marked improvements in 2021, is not likely to reach 2019-levels again until 2025. With the current geopolitical tensions, particularly the war in Ukraine, we will see the full effects of inflation in 2022 and the challenge will be whether we will be able to pass the increased costs on to the consumer. Although there will be opportunities as well, as it's during these tough times that some of the most important opportunities appear.

Brands (cont'd)

OUR STRATEGIC OUTLOOK (CONT'D)

In 2022 we will really capitalise on the reopening of borders and providing services to the hospitality sector. We will continue to place a lot of emphasis on what is locally produced, which has been our focus since 2020. The main focus in 2022 will be restoring the supply chain.

In 2021 the world shifted from Just-in-Time to building up stocks and this will remain a focus for Brands in 2022. This will enable us to catch up on export orders that we were not able to support this year and to capitalise on new opportunities.

Margin erosion due to the decline of the MUR will need close monitoring and we foresee continued increases in supply chain costs for consumers in 2022, resulting in lost sales. We will continue devoting energies to build efficiencies at all levels of the business. Our strategy on 'made in Mauritius' and the importance of buying locally manufactured products remains. Our best rum in the world award helps illustrate that we are a premium producer, and we will continue to work through organisations, such as Made in Moris (Mauritius), to encourage this.

The key today remains digitalisation. We went the extra mile in 2020 to digitalise our processes and now we plan full digitalisation of our warehouse. We will also continue to implement a fully integrated quality, safety and environment system.

We started to implement a learning culture this year, and this will be a big focus in 2022, emphasising our purpose, why we come to work every day, accountability, and collaboration between employees.

The improved performance from the total automation of the fermentation section has allowed us to retain our workforce, but it has also enabled us not to replace employees after retirement. Growing our automated processes with AI has shown significant results.

Looking to the year ahead, visibility remains a problem as we do not know the full effects of the geopolitical tensions. The big uncertainty that lies ahead is the energy price, especially for coal, which will impact the distillery. With the war in Ukraine, this had hit record highs. We are also slightly cautious regarding our subsidiary company in the Seychelles, as 21% of tourist arrivals in 2021 were from Russia and 6% from Ukraine.

Despite the above, prospects for 2022 are positive.

Our long-term plans remain valid, and we are working on achieving them. We merged three departments (accounts, sales and stores) to offer a better service to our clientele in 2021, and with this improvement team in place, we aim to reach a 95% service level in 2022. We are also aiming to make our distribution more efficient, serving more clients with less people.

The crux in the year ahead will be to stay agile. The health and safety of our staff remains a priority with a dedicated manager to support us on this.

IMPACT OF COVID-19

- Less impact in 2021 overall. Despite the lockdown periods, we already had work access permits (WAPs) for onsite employees, while other employees were already working from home, thus operations slowed down, but never came to a standstill.
- Health and safety remained the utmost priority; staff remained well informed and there was a demystification of Covid-19 in general, with overall less fear this year.
- We implemented shifts for the warehouse and distillery production teams to enable continued operations in the event of Covid-19 cases, and we plan to continue with these shifts in the future.
- The delivery of the new fermentation house for our distillery was delayed for six months and it only became operational in June 2021.
- Consumption continued to be impacted by hotel closures, but we found other ways to sell to end clients during these periods, including online sales, which slowed as soon as lockdown ended.