

# Chairman's Report



CARRERAS LIMITED

On behalf of the Board of Directors, I am pleased to report the unaudited financial results for the FIRST QUARTER ended June 30, 2020.

## Performance Highlights are:

	3 months ended June 30, 2020 \$M	3 months ended June 30, 2019 \$M	Variance
Operating Revenue	2,698.0	3,458.0	-22%
Profit from Operations	862.0	1,220.4	-29%
Profit for the Period	651.4	923.3	-29%
Earnings per stock unit (cents)	13.4	19.0	-30%

For the three months ended June 30, 2020, Carreras Limited earned operating revenue of \$2,698.0 million and delivered net profit for the period of \$651.4 million. These results show decreases in revenues and profits of 22% and 29%, respectively, compared to the corresponding period last year. This Q1 performance was expected due to the heavy restrictions on our imports and primary supply chain driven by the COVID-19 crisis which affected our ability to fully supply the market in April and May. The Company had to make the tough decision to restrict supply to key channels in order to ensure the consistency of supply. The second factor influencing the performance is the higher than average level of speculation which occurred in March driven by the national budget reading. Key to note however, is upon the resumption of adequate supply, the market reverted to its strong monthly performance surpassing SPLY and forecasts in June and beyond.

Improvements to our cost base remains a priority. Administrative, distribution and marketing expenses totalled \$508.9 million (2019: \$537.6 million) for the three-month period ended June 30, 2020. This represents a 5.3% decrease in overheads versus the similar period last year and is due mainly to the benefits of the route to market and decrease in related party costs, both of which have begun to positively impact our business performance. Management remains committed to implementing cost containment and cost cutting non-consumer relevant initiatives wherever this is possible.



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In the current environment, one of the main priorities of Carreras Limited is the protection of its people in terms of their health and employment. This is a keen focus of management who implemented a full suite of safety measures to ensure the team is protected as they serve the customers and consumers' needs. These include the equipping of sanitization and full protective gear at all times; ensuring a culture of social distancing and limiting congregations; providing transportation for at risk team members; utilizing online and Microsoft Teams to manage all meetings; frequent and extensive sanitization of offices, delivery vehicles, cars, warehouses, etc., repeatedly throughout the day and work from home for non-essential and at risk team members. As more information becomes available on the virus, we continue to evolve, take additional precautions, and upgrade our protocols accordingly. Carreras continues to provide full employment and benefits to all team members and will continue to do this as we seek to manage our resources carefully and ensure our team can focus on their roles and contribution without employment fears.

Our second major focus is on continuing to build and reap the benefits of the sophisticated and effective route to market put in place, which along with the wholesalers and rebates, provide the symbiotic infrastructure aimed at ensuring all adult consumers have adequate access to the quality products of Carreras. This is yielding great results as, since implementation, we are seeing the consistent growth of our volumes and the ability to introduce and communicate significant innovations to our portfolio to more highly receptive consumers. The success of this is evident in the growth of our flagship brand Craven A, tremendous success in our Matterhorn Double Capsule innovation product, and the sustained growth of Pall Mall, our value for money offers.

The Company applauds the open and inclusive approach of the government in its effort to manage the resources of the country. The Government and the Ministry of Finance have embarked on a sustainable excise strategy which appears to recognize the direct relationship between frequent and excessive increases in taxes and the proliferation of illicit cigarettes. This was self-evident in 2017 with the sudden increase in excise, and the significant resultant drop in legal cigarette volumes which impacted the government's revenue. Since then, with no further increases, the Company has worked hard to recover legal volumes, ensuring ample availability of credible legal offers in the marketplace, to compete as best we can with the illicit cigarettes in the trade. As a result, government revenues from legal cigarettes offers, particularly Carreras' brands, have increased. We note the Government's announcement to ratify the Framework Convention on Tobacco Control's Protocol on Illicit Trade and welcome this move, as we believe that if implemented effectively, the Illicit Trade Protocol could have a positive and sustained impact in reducing the local incidence of the illicit trade in tobacco. We hope that we continue to have a seat at the table and are included in the dialogue as key stakeholders in the industry.



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During the first quarter, we observed the expansive impact of the Corona virus (COVID-19) on various countries, businesses and most importantly, people. This pandemic has caused us to be more cautious yet proactive to limit its impact on our operations. Despite the advent of this pandemic, we continue to be cautiously aggressive in the management of our affairs, not shirking our responsibility to deliver shareholder value. We remain optimistic that businesses and the economy will recover and rebound from this unprecedented crisis. We are optimistic in our outlook for the business.

Stockholders, I am also pleased to report that the Board of Directors has approved an ordinary interim dividend payment of \$0.12 per stock unit, totalling \$582.5 million, to be paid out of accumulated profits on September 3, 2020 to stockholders as shown on the Register of Members as at August 14, 2020. This is in keeping with our dividend policy and demonstrates the Company's continued commitment to enhancing shareholder value.

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**ON BEHALF OF THE BOARD**

Raoul Glynn  
Managing Director