

Chairman's Report



CARRERAS LIMITED

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

KEY RESULTS

8% growth	in revenue at \$3.456b (Q2 2019: \$3.187b)
11% increase	in Pre-tax Profit at \$1.218b (Q2 2019: \$1.101b)
17% increase	in Shareholders' Equity as at \$1.781b (Q2 2019: \$1.528b)

For the second quarter ended September 30, 2020, Carreras Limited recorded an 8% growth in revenues of \$3.456 billion compared to the same quarter last year and delivered pre-tax profit for the period at \$1.218 billion. This is an increase of 11% versus the same period last year. Our performance in Quarter 2 was mainly driven by the steadfast commitment of the team to recover from the difficult first quarter of 2020, influenced by the myriad COVID-19 restrictions and their impact on expected consumption moments. Our company remained focused on delivering a formidable Q2 performance, which resulted in a year-to-date decline of 7% and delivered an operating revenue of \$6.154 billion. Our pre-tax profit handsomely yielded \$2.093 billion, which represents a 10% reduction versus the same period last year. Astute fiscal management resulted in a Shareholders' Equity YTD of \$1.781 billion, a 17% increase versus the same period last year.

The company continues to focus on improvements to our cost base. Administrative, distribution and marketing expenses totalled \$992 million (2019: \$1,033 million) for the six-month period ended September 30, 2020. This represents a 4% efficiency in overheads versus the similar period last year, maximizing benefits in the route-to-market distribution network as well as significant decreases in related party costs. These combined to positively impact our business performance, and management remains committed to implementing further cost efficiencies while continuing to invest in our most valuable assets: Our brands and our people.

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Navigating the COVID-19 Pandemic

The company continues to prioritise the health and employment expectations of our employees, and as such has implemented a full suite of safety measures to ensure that our frontline team remains protected as they work to meet the needs of our partners and consumers. These measures include but are not limited to the utilisation of all available sanitisation options as well as the wearing of required personal protective equipment (PPE); promoting a culture of social distancing and deterring group activity; providing transportation for at-risk staff; increased reliance on online platforms to manage all meetings and conferencing; maintaining round-the-clock sanitisation schedules for all offices, delivery vehicles, cars, warehouses, et cetera; and the upholding of work-from-home orders for all non-essential and at-risk team members.

Sustainable Excise Management

The company applauds the open and inclusive approach of the government in its efforts to effectively manage the valued resources of the country. The Government of Jamaica, through the Ministry of Finance & the Public Service, continues to embark on a sustainable excise strategy, which appears to recognise the direct relationship between frequent and excessive increases in taxes and the proliferation of illicitly traded cigarette brands. This was evident in the recent excise increase, which came as a shock and resulted in a significant drop in legal cigarette volumes. This in turn impacted the government's revenue and created a sudden increase in illicit cigarettes entering the market. Since then, with no further increases, the company has worked hard to recover losses in legal volumes, ensuring ample availability of credible legal offers in the marketplace, in order to compete as best as possible with illegitimate tobacco products. As a result, government revenues from the legal tobacco industry, particularly Carreras' brands, have increased significantly and will likely continue in this trend.

Following the announcement of the government's intention to ratify the Framework Convention on Tobacco Control (FCTC) protocol, Carreras continues to implore the government to maintain a focus on eliminating illicitly-traded tobacco products, particularly in increasing the penalties meted out to smugglers and handlers as well as strengthening border protection measures. Once enforced effectively, the company is confident in the positive and sustained impact to reduce the local incidence of unlawful cigarette trading. We remain undiminished and hopeful that Carreras will continue to have a seat at the negotiating table and will continue to be included in all related dialogue as a key stakeholder of the industry.

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Our Outlook for the Future

The pandemic is here for the medium term and we are ready to fulfil the mandate of the shareholders in delivering value in a most sustainable fashion. We are driven by the passion of our team, and our strong working relationship with the 10,000 valid outlets that sell our products across the island. Our confidence that Jamaica will emerge stronger from this unprecedented crisis gathers steam daily, and therefore Carreras remains optimistic in our outlook for the business.

Shareholders, I am also pleased to report that the Board of Directors has approved an ordinary interim dividend payment of \$0.17 per stock unit, totalling \$825.2 million, to be paid from accumulated profits on December 16, 2020 to shareholders as shown on the Register of Members as of November 23, 2020. This is in keeping with our standing dividend policy and demonstrates the company's continued dedication in enhancing shareholder value.

ON BEHALF OF THE BOARD

Raoul Glynn
Managing Director