

**MINUTES OF THE FIFTY-SEVENTH ANNUAL GENERAL MEETING
OF THE STOCKHOLDERS
OF CARRERAS LIMITED
HELD AT THE JAMAICA PEGASUS HOTEL
81 KNUTSFORD BOULEVARD, KINGSTON 5
ON WEDNESDAY, SEPTEMBER 4, 2019**

Present were:

Mr. Oliver Holmes	-	Chairman
Mr. Michael Bernard	-	Director
Mr. Matthew Hogarth	-	Director
Mr. Rafael Marquez	-	Director
Mr. Juan Carlos Restrepo	-	Director
Mr. Marcus Steele	-	Managing Director
Mrs. Janene Shaw	-	Finance Director/Company Secretary

In attendance: 83 Shareholders as per attendance register
4 Proxy Holders and 40 Guests

1. **WELCOME**

The Chairman called the meeting to order at 2:00 p.m. and expressed a warm welcome to everyone.

2. **APOLOGY FOR ABSENCE**

An apology for absence was tendered on behalf of Director Arturo Campero, whose flight was adversely affected by Hurricane 'Dorian'.

3. **NOTICE OF MEETING**

The Chairman put to the members of the meeting that since the Notice of the Meeting was circulated and in the hands of the Stockholders for the requisite period of time, it be taken as read.

Mr. Livingston Young endorsed the motion which was seconded by Miss Hyacinth Marshall.

The Chairman invited everyone to follow the proceedings of the meeting on Page 7 of the Annual Report.

4. **AUDITORS' REPORT**

The Chairman called on a representative from KPMG to present their Report for the year ended March 31, 2019.

Mrs. Nyssa Johnson, representing KPMG, read the Auditors' Report for the year ended March 31, 2019.

5. **APPROVAL OF THE AUDITED FINANCIAL STATEMENTS**

On a Motion made by Mr. Livingston Young and seconded by Mr. Orrette Staple, the following resolution was carried by the Stockholders:

“THAT the Audited Financial Statements and the Reports of the Auditors and Directors for the year ended March 31, 2019 be and are hereby adopted.”

6. **AUDITORS' APPOINTMENT AND REMUNERATION**

On a Motion made by Mr. Lanzel Bloomfield and seconded by Mr. Livingston Young, the following resolution was carried by the Stockholders:

“THAT KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.”

7. **RE-ELECTION/ELECTION OF DIRECTORS**

a) On a motion made by Mr. Bernard Channer and seconded by Mr. Roy Wilson, the following resolution was carried by the Stockholders:

“THAT Mr. Oliver Holmes be and is hereby re-elected as a Director of the Company.”

b) On a motion made by Mr. Orrette Staple and seconded by Mr. Roy Wilson, the following resolution was carried by the Stockholders:

“THAT Mrs. Janene Shaw be and is hereby re-elected as a Director of the Company.”

c) On a motion made by Mr. Andre Smith and seconded by Miss Vennary Reynolds, the following resolution was carried by the Stockholders:

“THAT Mr. Rafael Marquez be and is hereby elected as a Director of the Company.”

d) On a motion made by Mr. Mark Barton and seconded by Mr. Solomon Clarke, the following resolution was carried by the Stockholders:

“THAT Mr. Arturo Campero be and is hereby elected as a Director of the Company.”

- e) On a motion made by Miss Vennary Reynolds and seconded by Mr. Mark Barton the following resolution was carried by the Stockholders:

“THAT Mr. Juan Carlos Restrepo Piedrahita be and is hereby elected as a Director of the Company.”

8. **NON -EXECUTIVE DIRECTORS' REMUNERATION**

On a Motion made by Mr. Livingston Young and seconded by Mr. Solomon Clarke, the following resolution was carried by the Stockholders:

“THAT the amount shown in the Audited Financial Statements of the Company for the Year ended March 31, 2019 for emoluments received by the Non-Executive Directors for their services as Directors, be and is hereby approved.”

9. **APPROVAL AND RATIFICATION OF DIVIDENDS**

On a motion made by Mr. Mark Barton and seconded by Mr. Livingston Young, the following resolution was carried by the Stockholders:

“THAT the interim dividends of \$0.21 paid on June 28, 2018; \$0.16 (ordinary) and special capital cash distribution of \$0.11 paid on August 30, 2018; \$0.19 paid on Dec. 13, 2018; and \$0.18 paid on March 14, 2019, making a total of \$0.85 for the Year, be and are hereby ratified.”

10. **ANY OTHER BUSINESS**

BUSINESS REPORT UPDATE BY MANAGING DIRECTOR

The Managing Director extended a warm welcome to all in attendance. He outlined the key performance during the financial year 2018/19 and the First Quarter ended June 30, 2019.

The following were highlights of his presentation:

i) **Financial Year 2018/2019:**

➤ **Delivering Shareholder Value:**

The Company continues to deliver value to shareholders. During the 2018/19 financial year, the Company paid dividends totaling \$4.13 billion, an increase of 15% over last year and the dividend yield was 9%, an increase of 2 percentage points also over last year. Indeed, this is a creditable return to shareholders.

It was noted that during financial year 2017/2018, a total of \$3.59 billion was paid in respect of dividends, being 4% higher than the previous financial year, this was paid despite the Company having had the highest

excise increase of \$3 per stick of cigarette, which negatively impacted sales volume by approximately 20%.

Stockholders' Return on Equity was 255.1%, an increase of 84.4 percentage points over previous year's 170.7%. Although the share price has been fluctuating, Market Capitalization at March 31, 2019 stood at a notable figure of \$45.78 billion.

➤ Performance:

Real volume recovery (without a price increase) was achieved despite the various challenges affecting the business such as illicit trade, tougher legislation, excise increase and security risks to our sales force. Benefits are now being seen from the investments made in preparation for the future as well as the strength and resilience of team members.

Gross Operating Revenue of \$12.91 billion (2018: \$12.55 billion) increased by 2.8% and Net Profit of \$3.41 billion (2018: \$3.48 billion) declined by 2.2% but showed sign of recovery over previous year. Trading Profit Margin declined by 1.7pp to 34.9% (2018: 36.6%) as a result of increased costs incurred in protecting the Company's assets, being our sales team and brands on the road.

The Company maintained a strong financial position, of note, Cash Provided by Operations amounted to \$3.69 billion (2018: \$3.34 billion), an increase by 10.5% over last year. Credit risk was reduced by 25% to total \$2.4 billion (2018: \$3.2 billion). This was achieved whilst rebuilding the volume base and ensuring that future risks are mitigated.

The Managing Director thanked the Shareholders for the confidence expressed in the leadership of the Company and he also thanked the management team and employees for the good results.

ii) **First Quarter ended June 30, 2019:**

The Company had very strong results for the Quarter ended June 30, 2019 with Gross Operating Revenue of \$3.5 billion (June 2018: \$3.2 billion), an increase of 10% and Profit after Tax was \$923.3 million, an increase of 12% (June 2018: \$821.1 million). Trading Profit Margin was 35.2%, a decline of 0.1pp (June 2018: 35.3%). It is evident that we have started to reap the benefits of investments made in third and fourth quarters of the 2018/19 financial year.

Interim Dividends paid amounted to \$873.8 million (June 2018: \$776.70 million) from normal operations, an increase of 12.5% over the prior period.

It was noted that there will be no further Special Dividend payments

as the companies which were under voluntary liquidation were now fully wound up and funds were already distributed to Shareholders.

iii) External Challenges: Illicit Cigarettes and Excise

Illicit Cigarettes continue to have a direct impact on the legal industry as well as on revenue for the Government. These are being sold in the market at low prices because tax is not paid on these products.

Our internal study of all cigarette consumed showed that illicit incidence by Parish were: Kingston 53%, St. Catherine 15% and Clarendon 10%.

As a response to the prevalence of the illicit cigarettes, the Company is determined to get our brands, Matterhorn and Craven 'A', to customers in the most efficient way. We are doing this while navigating a risky environment to support our profit from underlying business, which is the marketing and distribution of cigarettes.

The Company has been having campaigns to educate the trade of the relevant law and regulations regarding the sale of cigarettes.

In enabling sustainability, management will continue to: engage the Government to promote a sustainable tobacco excise policy; strengthen key partnerships; and work with the authorities to address the illicit trade.

Reference was made of the increase in excise of \$3 per stick in 2017 which resulted in a decline in revenue for the Government from Carreras of approximately \$1 billion when compared with payments made for 2016, as well as the loss of their budgeted tax revenue of \$800 million.

It is estimated that the Government could be losing approximately \$2.5 billion per year in revenue because of value being shifted from the legal trade to the illicit trade.

It was noted that currently 57% of the invoiced price of cigarettes represents Government taxes.

iv) Leading the Industry in Innovation

The Company continues to invest in its core brands, Matterhorn and Craven 'A'. Starting with the Matterhorn brand which had remained the same for over 50 years, it is now winning in modernity, sophistication and appeal. Mr. Steele drew attention to the images of the upgraded Matterhorn in the auditorium, one with a single capsule and another with a double capsule. For the single capsule, he noted that a consumer could experience the original Matterhorn without clicking on the capsule. If more menthol is desired, then the consumer would click on the capsule. For the double capsule, the consumer can create his/her own mix of menthol and flavor by clicking on one or both capsules.

Carreras is preparing a portfolio for the future and will offer innovative products in order to put value in the hands of our consumers.

A video presentation showing the features of the Matterhorn Double Capsule which was shared, was well received by the Shareholders.

v) **Route to Market**

Management constantly evaluates the marketplace and after a recent analysis, the Route to Market model was redesigned to enable a more efficient operation. The implementation of the new model in getting our products from warehouse to consumers contributed to a significant part of the growth in sales volume during the months of April and May.

vi) **Winning Organisation**

Carreras was recognized by the JSE at its 2017/2018 Best Practices Awards Ceremony as the first runner-up in the Best Performing Company category, and second runner-up for its website, one of the ways in which the Company communicates with Shareholders and the general public. Carreras is honored to receive these enviable awards.

Based on a recent employee survey, it was noted that there is strong engagement and satisfaction among the 100+ staff members. There is a diverse management team and together with the rest of team, we aim to deliver good results despite the various challenges being experienced.

vii) **Corporate Social Responsibility**

The Company continues to demonstrate a commitment to the social and economic development in Jamaica and was recognized as the Top Corporate Donor by United Way. We empower lives through education by awarding scholarships to students attending various Jamaican colleges and universities.

In concluding his presentation, the Managing Director stated that the Company is committed to: sustain industry leadership; strong financial performance; be the leader in innovation; and deliver value to our Shareholders and Stakeholders.

The Chairman thanked the Managing Director for his very informative and thorough presentation. The Shareholders expressed their appreciation for a better understanding of the Company's business and its challenges.

AVAILABILITY OF MINUTES

The Chairman advised that a copy of the AGM Minutes is available to Shareholders on request.

RECOGNITION OF A SHAREHOLDER SINCE 1973

The Chairman read the following citation to Mr. Audley Holness:

“Mr. Audley Holness, after 46 years with Carreras as a long-time Shareholder, we are proud to recognize your steadfast faith in and commitment to your Company. We extend sincere thanks to you for your sizeable investment over the years.

Further, we take the opportunity, on the occasion of your 99th birthday, to wish you a happy birthday and many more years to come. I have no doubt that after nearly a century of life there are many lessons you could teach us and we all look forward to sharing with you after this afternoon’s proceedings are over.

God bless you Mr. Audley Holness and we look forward to seeing you next year when we will joyously celebrate your achievement of a century.”

In the absence of Mr. Holness, who was unable to attend, the Chairman asked Mr. Orrette Staple to collect the citation and a token for delivery to Mr. Holness.

QUESTIONS FROM THE AUDIENCE

The Chairman then invited comments from the audience. The following are highlights of comments, queries and clarifications:

- A Shareholder thanked the Creator for His guidance and protection and asked for His continued blessing.

He commended the Company’s Board, Management and Staff for the impressive results despite the challenges and expressed appreciation for the meeting attendance of the Directors and expertise of the Committee Chairmen. He said that the Management Discussion and Analysis in the Annual Report was very informative for Shareholders to get a better understanding of what is happening in the industry. He also commended management for the scholarships awarded to enable those persons to contribute in their communities.

- In response to query on Page 68 regarding ‘Gain on Liquidation of subsidiary’ of \$376,928,000 appearing in the Company Statement of Profit or Loss and not in the Group Statement of Profit or Loss (Page 63), the Finance Director explained that the treatment in accounting principle allows for the profit to be shown in the Company’s Income Statement but as a derecognition at the Group Consolidated level, that is, not as a separate entry.

- In response to a further query on Page 93 Note 20 regarding the effect of liquidation, the Finance Director explained that the Company would have received from Cigarette Company of Jamaica Limited dividends in the amount of \$567,673,000 which was offset against the write-off of the investment, leaving a gain of \$376,928,000. In the case of the Group, the Net Assets of CCJ of \$567,673,000 were equal to the total distributed as dividends and therefore a nil balance resulted in the Consolidated Group Accounts.
- Regarding Unclaimed Dividends of \$560,513,000 on Page 88 Note 16, these represent dividends payable to shareholders. These amounts were paid within the last twelve years and the Finance Director encouraged those Shareholders who had not collected same to contact the Company. She further noted that the Company's Articles allow for dividends that are unclaimed after twelve years to be written back to profits and thereafter these become available for distribution. An amount of \$60,941,000 being over 12 years (Page 76 Note 6) was written back to profit in the 2018/19 financial year.
- A clarification was sought regarding a statement made in the Auditors' Report on Page 4 under 'Auditors' Responsibilities for the Audit of the Financial Statements': second sentence 'Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.' The Finance Director confirmed that the Auditors are required to abide by both Accounting Standards and Auditing Standards.
- Reference was made to a newspaper article 'citrus cigarette mask tobacco smoking dangers.' In response to a query regarding steps being taken to provide a safer product, the Managing Director stated that he was not qualified to comment on the contents of the article, however, Carreras is in the business of marketing and distribution of a cigarette that is of the highest quality and a legal product. Also, on the Company's website the health warning of risks associated with cigarette smoking is clearly documented and the warning is also communicated on 60% of the cigarette package.
- In response to a query regarding the 9% increase in Expenses over the previous year, the Managing Director stated that there were significantly increased security costs to protect our assets (both salesmen and brands) in the financial year. Mention was made of the loss of a salesman who was killed, and since then there has been no security incident. There were also investments made behind our brands as well as the redesigned distribution channel. He drew attention to the Trading Profit Margin which at March 31, 2019 showed a decline of 1.7% versus last year, however, at June 30, 2019 there was a decline of 0.1% compared to the same period last year, reflecting a recovery on cost base.
- A Shareholder enquired whether there were any examples of countries that were successful in dealing with illicit trade. The Managing Director stated

that illicit trade is a global problem, and that there was partial success in Chile which is one of the markets of British American Tobacco, our parent company. He noted that Carreras has access to their experience and expertise and the information shared with management is applied locally as necessary. A comparison of our current and previous internal survey of illicit incidence indicated a small win against illicit cigarettes.

- Regarding next generation products (vaping), the Managing Director mentioned that these are currently sold in some markets within the BAT Group and Carreras is learning from the experiences, but our market has not yet taken on to these products.
- In response to a query regarding the reason for most of the Directors and Senior Managers not having shareholding in the Company, the Chairman stated that, as noted at previous AGMs, there is no policy that restricts their having shareholding, it is a personal decision and that we are more concerned in taking care of our general shareholding body.

Also, in addressing the query, Director Michael Bernard, Non-executive and Independent Director, who had previously served as Managing Director of several companies within the Carreras Group shared his experience.

He stated that in his capacity as an Executive Director and subsequently as a Non-Executive and Independent Director, over the years the Board had been involved in several significant activities: divestments of Twickenham Insurance and Sans Souci Hotel, as well as a number of distributions, for example, pension surplus and tax refund. He noted that there was about \$12 billion of cash on the balance sheet at one point in time. For several years, he had developed the capacity to invest in the shares of Carreras, but the Board advised that the timing was not right considering the capital distribution events that were planned. Had he bought shares then, it could have been viewed as having insider trading information.

- A Shareholder stated that her understanding is that under the road reconstruction project, there is a tax break in respect of loss of income for business owners who are adversely affected. She queried whether Carreras with its operation on Hagley Park Road could benefit from such a tax break. The Managing Director advised that there is a warehouse at that location but the selling of cigarettes is not carried out there so we could not make a claim for loss of income.
- In response to a query relating to amounts under 'Foreign Currency Risk' (Page 91 Note 18: (ii) (b)), the Finance Director stated that the Company transacts business in currencies other than the Jamaican Dollar and at March 31, 2019 had a net asset foreign currency exposure of US\$4.3 million, comprised mainly of cash and cash equivalents of US\$4.8 million and offset by related party payable balances. In the case of the GBP, the Company had a net liability foreign currency exposure of £670,000. Movements in the Jamaican Dollar versus these currencies creates a foreign currency risk.

For example, given the USD net foreign currency exposure at March 31, 2019, if the Jamaican Dollar depreciated by 4% versus the USD, the profit would increase by \$10.7 million.

- A Shareholder expressed concern that some vendors of, for example, coconut and bananas can be seen selling different illicit brands of cigarettes and enquired whether there is an active programme in place to educate them that they can be fined or given prison time. The Managing Director confirmed that there is engagement at the retail level throughout the year on different aspects of regulation. We advised of the amount of tax to be paid based on the law and help them to see that a product could not be legal if the price at which they are selling is below the tax amount.
- In response to a query whether Carreras intends to enter the cannabis industry to improve profit, the Managing Director responded by saying "no" Carreras will continue to focus on what we know best and a lot of management time is being spent on building the brands that we have.
- The Managing Director pointed out that on the national level, Craven "A" is at number one position with 66% and Matterhorn with 30 - 31%, in responding to a query of which brand had a higher demand.

11. TERMINATION

There being no further queries or clarifications, the Chairman thanked the Shareholders for their active participation.

He then invited them to partake of refreshments, to meet and greet fellow participants and said that the Directors and Management Team were available for any discussions.

The meeting was terminated at 4:00 p.m.

CONFIRMED: 

DATE:

November 6, 2019