

**MINUTES OF THE FIFTY-SIXTH ANNUAL GENERAL MEETING  
OF THE STOCKHOLDERS  
OF CARRERAS LIMITED  
HELD AT THE JAMAICA PEGASUS HOTEL  
81 KNUTSFORD BOULEVARD, KINGSTON 5  
ON WEDNESDAY, SEPTEMBER 5, 2018**

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**Present were:**

Mr. Oliver Holmes	-	Chairman
Mr. Michael Bernard	-	Director
Mr. Matthew Hogarth	-	Director
Mrs. Brenda Wilbert	-	Director
Mrs. Rosa Pereira Sigala	-	Director
Mr. Marcus Steele	-	Managing Director
Mrs. Janene Shaw	-	Finance Director/Company Secretary

**In attendance:** 69 Shareholders as per attendance register  
6 Proxy Holders and 44 Guests

1. **WELCOME**

The Chairman called the meeting to order at 2:04 p.m. and expressed a warm welcome to everyone.

2. **APOLOGY FOR ABSENCE**

An apology for absence was tendered on behalf of Director, Mrs. Maria Gabriela Rincon, who was recovering from surgery.

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 Mr. Lancel Bloomfield.

The Chairman invited everyone to follow the proceedings of the meeting on Page 2 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, 2018.

Mr. Tarun Handa, representing KPMG, read the Auditors' Report for the year ended March 31, 2018.

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

On a Motion made by Mr. Orrette Staple and seconded by Mr. Livingston Young, 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, 2018 be and are hereby adopted.”

6. **AUDITORS' REMUNERATION**

On a Motion made by Mrs. Evelyn Sangster-Barnes and seconded by Mr. Michael Hendricks, 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. Orrette Staple and seconded by Mr. Christopher Borough, the following resolution was carried by the Stockholders:

“THAT Mr. Michael Bernard be re-elected as a Director of the Company.”

b) On a motion made by Mr. Livingston Young and seconded by Miss Carol Leslie, the following resolution was carried by the Stockholders:

“THAT Mr. Matthew Hogarth be re-elected as a Director of the Company.”

c) On a motion made by Mr. Christopher Borough and seconded by Mr. Michael Hendricks, the following resolution was carried by the Stockholders:

“THAT Mrs. Rosa Pereira Sigala be elected as a Director of the Company.”

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

On a Motion made by Mr. Lanzel Bloomfield and seconded by Miss Ruth Bates, 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, 2018 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. Livingston Young and seconded by Mr. Solomon Clarke, the following resolution was carried by the Stockholders:

“THAT the interim dividends of \$0.21 paid on June 28, 2017; \$0.15 paid on August 30, 2017; \$0.18 paid on Dec. 13, 2017 and \$0.20 paid on March 14, 2018, making a total of \$0.74 for the Year, be and are hereby ratified.”

10. **BUSINESS REPORT UPDATE**

The Chairman advised that in place of the Chairman’s Report which is already in the Annual Report, the Managing Director would present a report on the affairs of the Company to enable Stockholders to get a deeper understanding of the business.

The following are highlights of his presentation:

i) **Financial Year 2017/2018:**

➤ **Increased Shareholder Value:**

Share Price increased by 43.4% (from \$7.40 at March 31, 2017 to \$10.61 at March 31, 2018). Dividends paid amounted to \$3.59 billion, an increase of 4.2% over 2017 of \$3.45 billion.

Total Shareholder Return which measures both the returns in the form of dividend income as well as the changes in the share price, amounted to 53.4% for the year. This compares to 22.6% in the previous year, indicating growth.

➤ **Performance:**

The Company had a creditable performance for the 2017/18 financial year despite the challenges. Although Gross Operating Revenue of J\$12.55 billion declined by 7.1% compared to \$13.51 billion in the previous financial year and Net Profit of J\$3.48 billion declined by 8.4% compared to \$3.81 billion, Trading Profit Margin increased by 0.1pp to 36.6% showing an improvement in our cost base and efficiency.

Consequent to an excise increase of \$3 per stick or 21.4% last year, the Company effected a price increase. The impact was that the Company experienced a decline in sales volume and the Government did not collect the budgeted tax revenue of \$800 million. In addition, there was a decline in tax revenue from the Company of approximately \$1 billion when compared with the previous year.

There was an influx of illicit brands in the market and were being sold below the tax requirement. The illicit trade has a direct impact on the legal industry as well as on the Government revenue. A quarterly conducted research showed that illicit trade was the only group that benefitted: 56% of all cigarette sales in Kingston is illicit, almost 30% in St. Ann and almost 30% in St. James. Illicit trade is a worldwide problem and in Jamaica, the annual estimated revenue loss to the Government is approximately \$5 billion.

The Company has been partnering with the Government and various authorities in addressing the challenges associated with illicit trade and will continue to call for a sustainable excise policy.

An Anti-illicit Conference was held recently to address the challenges and it was well attended by key stakeholders. Also, there have been several discussions in the media highlighting the impact of illicit products coming through our ports.

The Company has a strong portfolio of brands comprising of Craven 'A', Matterhorn, Pall Mall, Rothmans, Newport and Dunhill cigarettes and members of the audience were asked to support these brands in the marketplace.

**ii) First Quarter ending June 30, 2018:**

- The Company had an encouraging start to Quarter 1 with the revenues and profits increasing by 11.7% and 8.3%, respectively, compared to the corresponding period last year. For the three months ended June 30, 2018, Gross Operating Profit was \$3.15 billion (June 2017: \$2.82 billion) and Profit after Tax was \$821.09 million (June 2017: \$758.34 million).
- Dividends Paid amounted to \$776.70 million from normal operations, an increase of 6.7% from \$728.16 million. A special dividend of \$533.98 million was paid during the period. Total dividends paid for the quarter amounted to \$1.31 billion. This special dividend was the final one paid from the liquidation proceeds of Cigarette Company of Jamaica Limited.

**iii) Carreras Remains a Winning Organisation**

- The Company has a headcount of 100 employees and creates an environment conducive to the building of competencies and sharing them within the BAT Group. Talent has been exported to Costa Rica, London, Colombia and Guyana. One employee has recently returned to the Company from Trinidad.
- The Company was recognized by the Jamaica Stock Exchange as the Best Performing Company for a record eighth time.

- The Company communicates with the Shareholders through various means and one way is by the website, for which the Company was awarded first runner-up for the third time in the Best Website category.

**iv) Carreras Continues to Give Back**

The Company continues to give back by awarding fifty scholarships during the year to brilliant students who were facing financial challenges but would like to make a difference in their lives. In assisting these students, the Company continues to demonstrate a commitment to the social and economic development in Jamaica.

**v) Carreras continues to focus on its core business of tobacco**

An article had appeared in the 'Jamaica Observer' stating erroneously that the Company was considering the sale of marijuana cigarettes. It was later corrected, as Carreras is not actively considering the introduction of a marijuana cigarette, neither locally nor globally, and we are making no assessment of the marketplace despite the burgeoning local cannabis industry.

The Company will continue to place focus on its core business of marketing and distributing tobacco products, and in other markets, Electronic Nicotine Delivery systems and other potentially reduced risk products, which are actively being developed and distributed by British American Tobacco in markets across the region as well as globally.

**vi) Stock Split Update**

To increase shareholder value and improve liquidity of the shares, the Board deliberated on the prospect of a stock split and announced the decision on July 31, 2017. The stock split which was effective September 20, 2017, was approved by shareholders at the 2017 AGM. Overall, the stock split achieved its objectives, having a positive impact on both the share price as well as the liquidity of the stock.

There was a 37% increase in the price, moving from \$9.25 to \$12.67 per share between the date the Board announced that a split was being considered (31/7/2017) and the period immediately after the split (30/9/2017). This represented an increase in market capitalization of \$16.6 billion. For the liquidity of the stock, this has increased 27- fold. Volume traded during April to June 30, 2018 was 33.3 million shares compared to 1.2 million during the same period last year.

In concluding his presentation, the Managing Director reiterated the commitment of the Board, management and staff to continue to increase shareholder value and for Carreras to be a winning organization.

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

## 11. **ANY OTHER BUSINESS**

The Chairman then invited comments from the audience and the following are the highlights:

- A Shareholder stated that despite a reduction in revenue, the Company's Board, management and staff are to be commended for their hard work and he praised God for His help to enable the Company to handle the challenges. He mentioned that the Management Discussion and Analysis in the Annual Report was very informative and well presented to help shareholders get a better understanding of the business and its sustainability efforts. He also stated that the Corporate Governance Report was comprehensive and that he would like to see evidence of a Board assessment being done.
- Regarding a decline in Earnings Per Share for the year from 78.4 cents to 71.8 cents (Page 51), the Managing Director referred to an external factor being the increase in excise tax of \$3 per stick, which had been the highest one in the Company's history and had a negative impact on sales volume.

Note was made that approximately 57% of the invoiced price of a cigarette represents the tax payable, making it very difficult to compete with illicit traders whose cigarettes are being sold below the tax requirement. Discussions regarding a roll-back of a portion of the \$3 excise increase had been held with the Ministry of Finance. The Ministry of Health released a statement expressing disagreement with a roll-back.

The Company's number one risk is illicit trade and management has been and will continue to raise the issue with the authorities. The consumption of legal cigarettes has decreased whereas that of illicit ones has been increasing. The Company will, therefore, have to continue to raise the issue with Jamaica Customs on port management and also its engagement with the Ministry of Finance on their excise strategy.

It was noted that the legal trade has a duty of care for consumers to smoke a good product, whereas, with illicit cigarettes, one cannot be sure of the quality.

An Anti-illicit conference was held recently which provided training sessions and meetings with key stakeholders from various Government

Ministries and Agencies. Recently a container with illicit cigarettes was seized.

Our parent company, which operates in 180 countries, has successes in other countries and information is shared with management and applied locally as necessary.

The Company has been investing in its brands to withstand the challenges being experienced in the business environment and its route to market supply chain reaches where our consumers are located. The first quarter results indicated an 8% increase in profit after tax, so there has been a recovery. Our efforts to regain sales from the illicit trade continues to benefit both Carreras and the Government.

- In Note 7 (c), Page (63) - A taxation loss of \$777 million had been reported and related to Sans Souci Limited. This subsidiary is not trading, however, the amount can be carried forward indefinitely and Carreras is actively looking at ways to use this company, for example, as a distribution partnership, but no decision has yet been made.
- In Note 9 (Page 65) - Employee Benefits – the Finance Director noted that the numbers in relation to post-employment benefits are actuarially determined. The pension asset recognized in the statement of financial position totaling \$181.9 million represents the end result of the Actuarial assumption and calculation after taking into account the present value of obligations, the fair value of plan assets and the limitation for post-employment benefit determined and reported in the manner required under IFRS.
- In Note 17 (Page 74) - Technical Fees were paid to parent company for its expert knowledge in areas, for example, our fight against illicit trade, consultation regarding tobacco regulations, research and development, etc. thus allowing management and employees of Carreras to focus on the marketing and distribution of cigarettes.
- In response to a query regarding the reason for most of the Directors not having any shareholding in the Company, it was noted that as stated at previous AGMs, this is not borne out of a lack of confidence in the Company. Discussions among the Directors will continue on the matter.

In addressing the query Director Michael Bernard, who has been on the Board of Carreras since 1997 stated that, as said at previously held AGMs, he had the capacity to invest many years ago and had he done so, he would have had a substantial return on investment. He said that over the years the Board had been involved in several significant activities, e.g. divestments of Jamaica Biscuit Company, Twickenham Insurance, Sans Souci Hotel, as well as the CCJ Tax case and a number of distributions. He pointed out that 'based on what was happening, even if I did not know, people would think that I should have known and have used the knowledge to my benefit. The

Board discouraged the investment in shares at that time and I accepted the decision.'

In response to a query, it was noted that the Articles of Incorporation neither state the requirement of shareholding by Directors nor preclude them from owning shares in the Company.

- Note 18 (b) (Page 77) - As the Company does not earn foreign exchange and imports all of its cigarettes and pays certain expenses, for example, related party fees in foreign currency (USD and GBP), foreign currency risk is one of the risks being managed and requires that we have foreign exchange to cover eventualities. The analysis of the cash and cash equivalents and liabilities at the end of March 2018 showed the net foreign exchange exposure as positive. Should the Jamaican Dollar depreciate then there would be a gain on our USD cash investments.
- Note 18 (i) (Page 76) - Bad debts recovered of \$514,000 for 2018 and \$3,392,000 in 2017. The risk assessment process provides that any portion of receivables which is assessed to be doubtful is impaired and a provision for bad debt is made. Efforts continue to collect the amount and the above figures were recovered.
- Note 16 (Page 74) Unclaimed Dividends - If a dividend cheque is not cashed, it becomes unclaimed. The Company's Articles state that if it remains unclaimed, after 12 years it reverts to the Company and can be written back to profit and then distributed to shareholders. Once the Company is notified by the shareholder, payments of unclaimed dividends can be made via direct bank transfer and that the Registrar can be contacted for this facility if needed. A Shareholder asked fellow Shareholders to ensure that their dividend payments are collected.
- A Shareholder stated that his analysis of the financials indicated that for every dollar earned in financial year 2016/2017, there were 73 cents allocated to expenses and 27 cents to profit; for 2017/2018, it was the same. Expenses were not reduced and he would like the cost level to reduce to 56 cents and the rest to profit for 2019.

The Managing Director pointed out that the biggest cost item on the Company's P&L is Special Consumption Tax and Customs Administration Fee added together and the matter is out of our control. Based on the excise increase, we had to cut our cost base to maintain same level and to have no excise increase 2019 would give us an opportunity to improve the cost base going forward.

- The return to planting of tobacco and manufacturing of cigarettes locally would require significant investment for the many activities involved. It was noted that our products are part of a pool manufactured by one factory located in Trinidad and we are benefitting from economies of scale and expertise within British American Tobacco.



- Regarding the Managing Director's comment that the Company is not actively considering the introduction of a marijuana cigarette neither locally nor globally, a Shareholder applauded Carreras for not considering to be a contributing factor to the damaging effects that ganja smoking has on its users, especially the young ones. She noted also that the practice more often leads to evil and violent actions.

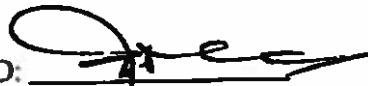
12. **TERMINATION**

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 4:30 p.m.

CONFIRMED: \_\_\_\_\_



DATE: \_\_\_\_\_

November 7, 2018

