



OUR PURPOSE

To be a global player in growing cane and manufacturing sugar, with a particular focus on specialty sugars

OUR BUSINESS MODEL

Our cane business is primarily a commodity business, shaped by supply and demand dynamics in the global sugar market. In addition to being a price-taker globally, our Mauritian operations are subject to pricing for the local sugar sector determined centrally by the Mauritius Sugar Syndicate (MSS). As a price-taker, our business model is determined largely by our ability to drive efficiency gains in our growing and milling activities, and by securing a price premium through our distinct offering of specialty sugars. We also benefit from our state-of-the-art technology and skills in the mechanisation of cane growing and harvesting.

In the context of the current low-price environment and continuing challenges in the global sugar market, we have adopted a predominantly defensive strategy aimed at driving operational efficiencies across our activities. Our most significant costs are related to labour, followed by repairs and maintenance, fuel and fertilisers. Informed by the recent activity-based costing exercises undertaken in our fields, mills and garage, we are further optimising our production. In addition to delivering enhanced efficiencies at our Belle Vue operation, we have been identifying ways to lower production costs at our Côte d'Ivoire operations. We are continuing to review possible growth opportunities internationally that harness our recognised technological and process skills.

Terra has been growing sugar cane and producing sugar since 1838, when the Harel brothers acquired the Belle Vue sugar estate in the north of Mauritius. Today, we have around 6,000 hectares of agricultural land, and we operate one of the most modern sugar producing factories on the island with a processing capacity of 336 tonnes of cane per hour. In a typical year, the mill processes around 875,000 tonnes of sugar cane and produces 93,000 tonnes of sugar. We also jointly manage two sugar estates and factories in Côte d'Ivoire.

CAPITAL

People



MATERIAL INPUTS (2018)

No. of employees:
Terra Milling: **159** permanent and **240** temporary
Terragri (Agriculture): **387** permanent and **171** temporary

MATERIAL OUTCOMES (2018)

Injury rate: **37.2** ▲ **28%**
Terra Milling: **48** accidents =
Terragri (Agriculture): **28** accidents ▼ **15%**

Natural



5,195 hectares of land under cane cultivation ▼ **5%**
6.2 million m³ of water consumed ▼ **34%**
751,121 tonnes of sugar cane milled ▼ **13%**
14,117 tonnes of organic fertilisers ▲ **34%**
1,569 tonnes of liquid mineral fertilisers ▲ **34%**
1,043 tonnes of solid fertilisers ▼ **9%**
688 m³ of diesel ▼ **1%**

356,494 tonnes of own cane harvested
80,480 tonnes of specialty sugars produced ▼ **8%**
4,395 tonnes of CO₂ (from diesel) ▼ **18%**
13.5 m³ of used oil ▼ **7%**
17.6 tonnes of used vehicle tyres ▼ **11%**

Social



Quality relationships with key stakeholders including: MCIA, MSS, Terragen, planters, employees and labour representatives, and service providers

Employee turnover rate: **4%**
Zero day lost to strike action
MUR 0.3 million of CSR contribution

Intellectual



Renewal of international certifications, including BRC, GMP, Halal and C-TPAT

Continuous improvement in manufacturing techniques

Financial



Cane cluster total equity (Jan 2018):
MUR 8,283.8 million
Debt financing: **MUR 532.5 million**
Capital expenditure: **MUR 125.8 million**

Turnover: **MUR 835.7 million** ▼ **23.3%**
Loss: **MUR 318.9 million** ▲ **321.3%**
Cane cluster total equity (Dec 2018):
MUR 7,723.0 million
Net cash and cash equivalents:
MUR 49.4 million

MATERIAL ISSUE IMPACTING VALUE CREATION OUR RESPONSE

Continuing volatility in global sugar prices – In 2018 we experienced a record low in sugar prices. This has had a profound negative impact on all global sugar producers outside tariff-protected countries. In Mauritius, the price of sugar was MUR 8,800 per tonne (2017: MUR 11,000; 2016: MUR 15,571), substantially below our break-even price.

With low sugar prices anticipated to continue at least for the short term, we have maintained a strong focus on enhancing efficiencies across our growing and milling operations. We are working to increase sugar yields and to optimise the production of our specialty sugars that command a price premium.

Challenging sugar trade dynamics – The global sugar market was profoundly affected by the European Union’s abolition of sugar quotas in October 2017, which contributed to a supply surplus and resulting lower sugar prices. The global sugar market is also impacted by strong protectionist measures in many sugar-producing countries, as well as increasing regulatory pressures (such as sugar taxes) and broader trade developments such as the current US/China trade dispute.

We are working actively with the MSS to assist them in strengthening the branding and marketing of Mauritian sugar, and to identify new market opportunities, particularly for our distinctive specialty sugars. We believe that the longer-term fundamentals for sugar remain strong, particularly given growing consumer demand in emerging markets.

Structural challenges in the Mauritian sugar sector – The Mauritian sugar sector has some unique features, including a highly-regulated labour environment and a centralised organisation responsible for the marketing and sale of all locally-produced sugar. Due in part to its regulations resulting from its historical legacy, the country’s sugar sector has comparatively high labour costs that negatively impacts its global competitiveness.

Given the challenging changing trade and price dynamics in the global sugar market, and the substantial contribution of sugar to the Mauritian economy, we are engaging with Government to encourage measures to enhance local competitiveness. Suggested measures include: reviewing the current regulatory context for labour; providing better reward for the sector’s renewable energy sources; and ensuring that millers receive fair return from the Sugar Insurance Fund Board (SIFB).

Sustaining supply from small-scale cane producers – The productivity of our mill and the production capacity of our specialty sugars, require a regular supply of cane from independent small-scale cane producers. Due to the current price challenges, some farmers are leaving the sector, and there is generally low interest from the younger generation to work in the fields. This year, the volume of cane secured from planters was 395,395 tonnes, down from 442,000 tonnes last year and 478,000 tonnes ten years ago.

To ensure a regular flow of cane to our mill, we are placing a strong focus on reviving the interest of existing and prospective independent cane planters. We are working with authorities to identify opportunities to appropriately motivate the next generation of planters.

Rainfall patterns and water availability – 60% of our fields are directly dependent on local rainfall, and thus susceptible to the uncertainties of changing weather and climate. In terms of irrigation for the remaining 40% of our fields, we face increasing competition from other users as the economy grows in the water-stressed north of Mauritius.

We have undertaken a detailed assessment of water-related risks and opportunities facing the business and we are implementing measures to optimise our water consumption and ensure better utilisation of effluents for irrigation.

OUR 2018 PERFORMANCE

In the context of record-low sugar prices, this has been a particularly difficult year for the business. The Cane cluster posted total losses of MUR 318.9 million, compared to losses of MUR 75.7 million in 2017. We incurred losses both in our Mauritian operations (MUR 325.7 million) and at our associate company in Côte d’Ivoire, Sucrivoire, in which Terra holds a 25.5% stake. The contribution of Sucrivoire to the cluster, including fees received for our management services, amounted only to MUR 6.8 million (MUR 64.4 million in 2017).

This year, 47,193 tonnes of sugar accrued to the Group (2017: 52,635 tonnes), comprising 29,718 tonnes attributable to growing operations (2017: 33,224 tonnes) and 17,475 tonnes to milling operations (2017: 19,411 tonnes). Terra Milling produced 80,480 tonnes of sugar *Tel Quel* (2017: 87,397 tonnes) and 81,907 tonnes of specialty sugars (2017: 87,974 tonnes). The extraction rate was better at 10.82% (2017: 10.17%), while the volumes of cane processed declined to 751,121 tonnes (2017: 867,643 tonnes). Our average yield was 7.95 tonnes of sugar per hectare (2017: 8.66 tonnes), with an average sucrose content of 12.02% (2017: 12.55%).

MAURITIUS: DELIVERING OPERATIONAL EFFICIENCIES

Given the low-price environment, our priority in 2018 has been to drive down the costs of production across our operations and activities, and as far as possible to reduce our break-even price. We made very pleasing progress this year in reducing costs, delivering fully and earlier than anticipated on our 2020 vision. We completed our substantial internal reorganisation, progressed with the introduction of Kaizen concepts across the business, delivered marked cost reductions by optimising our transport services and improving our stock management practices, and realised material efficiencies through improved labour productivity and reduced irrigation costs.

We invested MUR 69.9 million in enhancing the mill’s performance and improving operational efficiencies. This year, the mill crushed an average of 5,734 tonnes of cane per day (2017: 6,287 tonnes) and it operated on average 18.9 hours per day. The extraction rate of the mill stood at 97.20 (2017: 97.56), while the milling rate was 303.4 tonnes per hour (2017: 310.1 tonnes). Through our efficiency initiatives, we reduced the cost of production of milling by MUR 47.3 million (a reduction of 9% on 2017), and the cost of growing by MUR 37.4 million (a reduction of 5% on 2017). We anticipate valuable additional efficiency improvements over the next three years through the various measures that we have been introducing.

To drive efficiencies in our growing activities, we have been implementing more efficient harvesting and soil preparation measures, and introducing new technologies and field maintenance activities, including through the increased use of artificial intelligence, designated software and drones. Early in the year we introduced a new procurement strategy, which has already delivered significant savings, achieved by renegotiating prices and terms with existing suppliers, and through more efficient on-boarding of new suppliers.

We have also made valuable progress in further instilling a culture of health and safety in our operations, through a combination of investments in technical equipment and a continuing focus on internal communication and employee training. These activities contributed to reducing the accident occurrence to 28 at Terragri (Agriculture) (down 15%) while at Terra Milling, the number of occurrence was 48, similar to 2017.

CÔTE D’IVOIRE: A DISAPPOINTING YEAR

This has been a disappointing year for the two sugar estates and factories in Côte d’Ivoire that we manage jointly with SIFCA, our Ivoirian partner. *Sucrivoire* sold 109,777 tonnes of sugar (comprising 87,977 tonnes of own production and 21,800 tonnes imported), compared to 108,034 tonnes in 2017. This year, production from our factories in Borotou and Zuenoula, which collectively supply half of the sugar consumed in the country, amounted to 87,977 tonnes, compared to 82,064 tonnes in 2017. The revenue for 2018 was at par with 2017, despite a marginal increase in volume sold combined with a lower mean selling price, due to the sales mix. There were significant increases in depreciation and finance charges. No major exceptional item was recorded in 2018, as compared to 2017 when we received insurance compensation for the fire which occurred at our factory in Zuenoula in October 2015. The above explains the losses incurred in 2018.

Furthermore, in 2018 we noted a poor management of mosaic disease in some sugarcane fields (this will take around three years to recover), low cane purity in fields, poor extraction in mills, and an inadequate monitoring of the cost of production.

Given the Côte d’Ivoire’s encouraging GDP growth rate (7.70% in 2018), we believe that the country offers valuable growth potential. Our short-term objective is to grow sugar production from current levels to around 160,000 tonnes by 2023. To do so, however, we will need to substantially increase productivity and drive further efficiencies, reducing production costs to international norms. We will continue to be involved in the operation and will be actively exploring opportunities to drive the necessary improvements.

OUR STRATEGIC OUTLOOK

Our recently approved 2022 Vision for the cluster aims to ensure our continued resilience and growth in the current very challenging price environment. Our primary focus is on managing those activities where we are currently invested, improving efficiencies and further optimising production.

We have prioritised the following areas:

- Driving further efficiency and productivity gains across our operations and workforce, including through control and process automation, introducing leaner organisational structure at all levels, delivering enhanced productivity specifically in our bagging, workshop and laboratory areas, and improving stock management and transportation logistics;
- Maintaining a strong focus on embedding a change of culture across the operation;
- Ensuring continuous improvement in our manufacturing techniques;
- Optimising the production of our specialty sugars, and continuing to collaborate with MSS to enhance the global marketing, pricing and volumes of Mauritian specialty sugars;
- Partnering with others to identify and deliver solutions to motivate and retain small-scale farmers;
- Further improving our water consumption and ensuring better utilisation of effluents for irrigation.

On the back of these initiatives we are confident that we will become more competitive, hopefully also aided by Government policy changes that will assist the local sugar sector to be able to play on a more level playing field. With the recently announced closure of Medine sugar factory, we expect a volume of canes from Medine Factory Area to be rerouted to Terra Milling. We are looking to be more directly involved in our Côte d'Ivoire's operations, which needs a significant investment in upgrading its skills-sets and equipment to sustain its future profitability. In addition to driving lean techniques across our existing operations, we will continue to explore opportunities for global diversification, harnessing our recognised technological and process skills in those regions that offer the right balance in terms of risk versus the potential return on investment.

PERFORMANCE GRAPHS

