

CHAIRMAN'S Message

It gives me pleasure once again to introduce Terra's annual Integrated Report, our second successive integrated report developed in accordance with the IIRC's International <IR> Framework. The aim of this report is to provide Terra's shareholders and other interested stakeholders, with a concise review of the Group's performance and governance practices for the financial year, and to outline the Company's strategic framework for long-term value creation. I encourage you, as one of Terra's stakeholders, to read this report and to give us your feedback, both on Terra's disclosure and its performance, as this will help us in our efforts to drive continuous improvement in our governance practices and the Company's performance.

A CHALLENGING OPERATING ENVIRONMENT REQUIRING SOME TOUGH DECISIONS

2018 has been a particularly challenging year for the Group, with an exceptionally low world market price of sugar placing significant pressure on the Company and the Group's revenue, profits and share price. While the low sugar price has impacted sugar producers globally, its effect has been particularly acute in the Mauritian sugar sector which operates in a unique regulatory and policy context that reflects the country's social and economic history. Unfortunately, this policy context is currently undermining the sector's ability to be globally competitive, and this is potentially threatening the short to medium term viability of the sugar sector.

It is very difficult to imagine Mauritius without sugar cane, a crop that has been instrumental to and had significant beneficial impact on the country's history and economic development. The sugar industry supports many livelihoods through direct and indirect employment; it also plays an essential role in supporting the island's tourist industry through its pleasing visual backdrop and contributes to a greener environment by helping to fight climate change. In many respects, the Mauritian sugar industry is now at a crossroads: given current world market pricing, there is an urgent need for stakeholders across the sugar value chain – cane planters, sugar refiners, trade unions, related industry sectors and the Government – to work collectively to find solutions that ensure the sector's survival in an increasingly competitive global market.

Finding solutions to this challenge will not be easy and will require all of us stakeholders to take some tough decisions. The Government has a particular responsibility in providing the right policy environment to help the local sugar sector thrive. In reshaping local working

environment for the sugar industry, government authorities could use some of the lessons which were learnt in supporting the life cycle of the Mauritian textile sector back in 2005 at a time when world quotas were abolished. There is an urgent need to implement the necessary policy and regulatory changes that would allow the sugar industry to compete on equal terms with its global competitors. We are convinced at Terra that such changes will bring sustainability to the local sugar sector, which will continue to have huge beneficial repercussions for the country, socially, economically and environmentally.

LAYING A FOUNDATION FOR LONG-TERM VALUE CREATION

This is the third year in which Terra has been executing its strategy of optimising value from the Group's core assets across the sugar value-chain, and delivering value through its four clusters: Cane, Power, Brands, and Property and Leisure. Developed and implemented under the leadership of our Managing Director, Nicolas Maigrot, and the decentralised management teams in each cluster, the strategy represents a shift from the Group's previous focus on diversification. Despite the significant challenges associated with the current record-low sugar prices, I believe that the performance and prospects for each of Terra's four clusters lend support to this strategic focus, which is providing an important foundation for long-term value growth.

Responding to the tough price environment, the **Cane** cluster has maintained its strong focus on reducing costs and improving productivity across its entire operations, and on optimising the production of specialty sugars that command a price premium. While its efficiency drive has delivered substantial cost savings, these will not be sufficient on their own to secure a return to profitability given the current level of global sugar prices and the inherent structural regulatory challenges facing the local sector. In seeking to address these challenges, Terra and the Mauritius Chamber of Agriculture continue to engage actively in discussions with all various key stakeholders, including in particular with:

- the Government, to enhance the sector's competitiveness,
- the Mauritius Sugar Syndicate, to strengthen the branding and marketing of Mauritius' sugar, and
- all sugar cane planters (small, medium and large-scale) in an effort to retain them in the sector.

In addition to these efforts to boost the competitiveness of the local sugar sector, the Cane cluster is also exploring opportunities for further global diversification, building on our experience in Côte d'Ivoire. While I am confident that the long-term fundamentals can be strengthened to allow for a sustainable future for the Mauritian sugar industry, we will need to see some significant changes in the local regulatory environment to ensure the competitiveness of the Mauritian sugar sector.

The **Power** cluster continued to deliver world-class operational performance and to provide significant value, both for the Terra Group and for the country more broadly. Terragen was once again among the most reliable and cost-effective energy producer for the Central Electricity Board (CEB), supplying the cheapest source of electricity

for the country's national grid, and making further strides in increasing the uptake of cane trash and other renewable energy inputs. In doing so, the cluster delivered strong revenues and stable profits for the Group, as well as valuable savings for the country by reducing imports of coal and supporting the Government's commitment to greener energy. The company's deserved reputation as a reliable and cost-effective producer of increasingly renewable energy should stand it in good stead as it looks to renew its contract with CEB.

This year, the **Brands** cluster did not perform quite as well as in previous years, facing some unplanned logistical challenges, a strengthening regulatory environment, and some shifts in consumer behaviour. Its performance was also impacted by the divestment of its business in Uganda, and some teething problems in the Seychelles market. These challenges were offset by further consolidating the cluster's brand offerings and by driving additional efficiencies across their value chain, supported by strong distribution channels, positive relationships with customers and global brands, and a good record for innovation. I believe that the cluster offers strong upside potential, and I am confident that they will further strengthen their position as a market leader in the country and continue to deliver positive top and bottom-line growth.

It has been encouraging to see the significant progress that the **Property and Leisure** cluster has made since its establishment in 2016 with the specific goal of unlocking value from the Group's strategically-located land holdings. Having appointed and bedded down its skilled management team, and finalised a clear strategic roadmap, the focus this year was on providing the necessary impetus to the planned Smart City development. The team has performed well, completing several high-profile developments, obtaining the Smart City certificate, commencing a number of infrastructure and construction projects, and securing some key tenants and exciting partnerships, including specifically in the retail, education and residential arenas. The cluster's performance this year has laid a strong foundation for what we anticipate will be a significant source of long-term value growth.

The Group's key **associates** had another fairly mixed year, with the strongest performances coming from our investments in insurance and financial services companies. In the longer term we will be looking to divest from some of our non-strategic investments, and to manage our gearing levels as we seek to deliver growth from the Group's core assets across the cane value chain.

MAINTAINING OVERSIGHT THROUGH A DIVERSE BOARD

As the Board, it's our task to oversee the Company's performance and strategic direction, and to ensure that our executive team fulfils its fiduciary and societal responsibilities by using the resources entrusted to it to optimise value for the Group and all its stakeholders. In fulfilling this task, we are fortunate to have a Board that brings valuable diversity in skills, experience and perspective, with directors who have worked across different industry sectors, as well as in academia and government. During the reporting period there was one change to the Board membership, with Mr Hubert Harel resigning as a non-executive director after six years of service. On behalf of the Board,

I wish to extend our thanks to Hubert for his valued service, and wish him the best in his new activities. A new non-executive director will be proposed for election at the forthcoming annual general meeting.

DEMISE

It is with deep regret that we have learnt the demise of Me Jean Hugues Maigrot, GOSK, who has been, for several decades, the Group's notary and has chaired, for almost 10 years, the Board of Harel Frères Limited. On behalf of my fellow directors and in my personal name, I convey our warmest condolences to his widow and his family.

APPRECIATION

A company's ability to deliver value ultimately depends on the effort of its workforce, from the executive and management teams through to employees working in the fields and factories, in offices and on the shop floor. Throughout this challenging year, Terra's employees have continued to make an invaluable contribution to the Group's performance and sometimes under very tough conditions. On behalf of the Board I would like to convey our sincere appreciation to Terra's employees for their continuing motivation and contribution, as well as to Nicolas Maigrot and his dedicated management team for their work in defining and driving the Group's strategic vision. I wish also to thank all my colleagues on the Board for their advice and assistance, and to extend my deep appreciation to all of Terra's business valuable partners and stakeholders, including those within the Government of Mauritius, for their collaboration throughout the year.

I have no doubt that the Group has the right strategy, systems and talent to deliver substantial value into the future. Reaching its full potential, however, will require further collaboration – with Government, local regulators and industry peers – as we seek to address the challenges impeding the competitiveness of the Mauritian sugar industry in this very tough price environment. For the good of the country, its people, the economy and our businesses, it is essential that a short and medium term solution is found.



Alain Rey
Chairman of the Board
09 May 2019

