MANAGING DIRECTOR'S *Message*

This has been a very difficult year, with the record-low sugar prices putting severe pressure on the Group's performance. This year in Mauritius sugar averaged MUR 8,800 per tonne down - from MUR 11,000 in 2017 and MUR 15,571 in 2016 - substantially below our current break-even price. The 20% fall in sugar price contributed to a 42% drop in the Group's gross profit to MUR 183.5 million, off the back of the Cane cluster's operational loss of MUR 271.9 million. This loss was offset by generally positive financial performances elsewhere in the Group.

In my message to shareholders last year, I highlighted that our focus as a Company had been on appointing and structuring the right teams to deliver long-term value for the Group, and I identified the urgency that we face – both as a Company and more broadly as a country – in responding effectively to the prevailing low sugar price levels. While this urgency remains the order of the day, and in some respects, has become more acute, I am confident that Terra now has the right people and skill-sets to deliver on our long-term strategic ambitions. Each of our clusters is appropriately structured with strong teams in place, and each has developed a compelling three-year strategic plan that provides a clear vision for the Group, with strong alignment across the executive team and directors.

Looking ahead, we will be focusing on further developing our core competencies, driving improved operational efficiencies and identifying opportunities for new investments in areas where we will be able to capitalise on our expertise. We will also continue to divest of our non-core assets and activities.

CANE: *Responding to the challenging price environment*

In many respects this past year has been a 'perfect storm' for the Mauritian sugar sector. The recent ending of European quotas and the resulting global oversupply of sugar, combined with strong protectionism in certain markets, rising costs and falling volumes locally, have placed extreme pressure on local producers, all of whom have suffered heavy losses. While we anticipate that the tough global price environment will result in reduced global production and an improvement in prices, this will not be sufficient to financially sustain the local sugar sector, which faces some quite daunting structural challenges.

Given the substantial economic, social and environmental benefits of the Mauritian sugar industry – which has one of the highest overall multiplier effects – it is essential that we find solutions to some of the challenges which the sector faces. Sustaining the sector, that has played such a pivotal role in the country's history and development, will require far-reaching changes at a national, sectoral and company level:

- At national level, we believe that the Government needs to take steps to help the sugar industry become more competitive. Although the Government has taken some measures in 2018 to mitigate the low market prices, by improving the price paid to planters for *bagasse*, this is a temporary measure that will not address the structural issues. Government should review and address the overly tight regulatory environment under which we operate, it ought to aim at providing better value to the sector for the green energy we generate both through *bagasse* and cane trash, and ensure fair and appropriate remuneration from the Sugar Insurance Fund Board to all those insured through the fund. We were particularly disappointed this year to see that the millers did not get their fair share from that fund. We shall continue to constructively engage with Government with the aim of finding a mutually beneficial way forward.

- At sectoral level, the Mauritius Sugar Syndicate (MSS) has identified the critical role it needs to play in strengthening the marketing and branding of Mauritian sugar, and in particular to further stimulate demand for locally-produced specialty sugars. Doing so will help reduce the local sector's dependence on secure white sugar – a global commodity – and to more effectively secure the premium associated with specialty sugar. This will require a co-ordinated response across local milling companies, who will need to adapt to produce more specialty sugar while reducing local refining capacity. With Medine recently being allowed to close their factory, and in the context of the lower volume of locally-produced cane, the rationalisation of factories is inevitable. Given our excess milling capacity, and under the right pricing structure, Terra is willing to take on some of the other companies' cane output, which will also help to increase the production efficiency of green energy for the country, through our Terragen power plant.

- At company level, each local producer will need to do what they can to realise efficiencies across their operations. As a result of the dynamism and innovativeness of our teams, it is pleasing to report that we made significant progress this year in delivering on our three-year plan and reducing as a result the cost of production both for milling and growing activities. While we are confident that we can drive further efficiencies by applying lean techniques, we will need substantive regulatory reform to enable the local sugar industry to operate in a more level playing field, compared to other sectors of the local economy.

In addition to working actively towards protecting the competitiveness of our local cane operations, we are looking to further harness the potential that rests in our world-class know-how and expertise by realising opportunities to expand outside Mauritius and be more directly involved in our operations in Côte d'Ivoire. After a year of disappointing performance, we recognise that the Côte d'Ivoire operations necessitate a significant upgrade in skills, followed by substantial investment, to secure their profitability in the future. We are working with our partners in Côte d'Ivoire to workout a *modus operandi,* that would effectively make use of our expertise.

POWER: *A global leader in reliability and generation costs*

Our Terragen plant is amongst the world's "best in class" power plants both in terms of reliability and cost of production. The operation had another good year, generating 410.6 GWh of electricity with 93.1% availability and an after tax profit of MUR 199.1 million. We have been pursuing in our drive this year to increase our share of green energy, both by increasing the volume of cane trash and testing the viability of additional sources of biomass such as eucalyptus and we are hoping to secure more *bagasse* from the Medine sugar estate. It is pleasing to report that we made further progress this year with our carbon burnout plant, a joint-venture 'circular economy' initiative with Omnicane, that transforms Terragen's ash into raw material to produce cement. We are committed to continuing to drive the uptake of green energy, and to remaining a key source of reliable and cost-effective energy for the benefit of the country. Ahead of the 20th anniversary of our Power Purchase Agreement with CEB, in June 2020, discussions around the renewal of the contract should start in the near future.

BRANDS: *A challenging year*

This was a difficult year for the Brands cluster, which felt the impact of rising input costs, unexpected logistical challenges, changing consumer patterns, and the divestment of our Uganda activities. Revenue for the year was up at MUR 1,450.6 million, while profit after tax decreased to MUR 83.7 million. We have seen a shift this year in consumption from our mainstream products towards more sophisticated product offerings. While this has affected our gross margins in the short-term, we are responding through the repositioning of our product portfolio, and have seen positive growth, in particularly in Scotch whisky and our premium rums. We made a substantial investment this year in our distillery operations, which will pay-off in terms of increased cost efficiency. We have made some changes to our Seychelles operation, with the view of capturing valuable growth potential. Looking ahead, we are confident that 2019 should be a more profitable year for the Brands cluster.

PROPERTY AND LEISURE: *Laying the foundation for long-term value*

In 2018 we completed the appointment of a strong team of property development and management professionals, structured around five departments: project development and finance; land management; property and assets; marketing and sales; and project management. This was a very encouraging year for the team who delivered significant momentum to the Beau Plan Smart City project, with the successful completion of various investments, including the African Leadership Campus, the first phase of the Greencoast International School, the La Louisa Equestrian Centre and the Patrick Mavros jewellery atelier. We obtained our Smart City certificate in November and the current year promises to be a significant milestone, as we will start the development of our planned retail and office parks, apartment and duplex projects, and a boutique hotel. We are excited about the substantial long-term value that the Property and Leisure cluster will be realising from the Group's land ownership.

ACKNOWLEDGEMENTS

The Group's generally strong performance in this very tough year is attributable to the hard work and commitment of our people across the Company. I wish to express my appreciation to my colleagues on the executive and the management teams in each of the clusters, as well as to Terra's employees at all levels in the Group, for contributing to the development and strong execution of our strategy in a very challenging operating environment. I would also like to thank my colleagues on the Board for providing valuable advice and oversight.

Looking ahead, I am confident that we have the right skill and people ethos in place to create long-term value for our shareholders and other stakeholders.

Nicolas Maigrot
Managing Director
09 May 2019