



Growing sugar cane and producing sugar are the foundation of Terra's growth and success, and date back to 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 factories on the island, with a processing capacity of 336 tonnes of cane per hour. In a typical year, the mill processes some 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.

**Our business model**

Our cane business is largely a commodity business, driven by supply and demand dynamics in the global sugar industry. In addition to being a price-taker globally, we are subject, at the level of our Mauritian operations, to pricing that is centrally determined by the Mauritius Sugar Syndicate (MSS) for the local sugar sector. As a price-taker, our business model is determined largely by our ability to drive efficiency gains in both the growing and milling activities. An important differentiating factor is our offering of specialty sugars, which carry an additional price premium. We also benefit from state-of-the-art technology and skills in the mechanisation of cane growing and harvesting.

Given the current low-price environment and challenging global trade dynamics, we have a largely defensive strategy focused on driving operational efficiencies in our existing activities. The bulk of our material costs relates to labour, followed by repairs and maintenance, fuel and fertilisers. Through activity-based costing initiatives, undertaken in our fields, mills and garage operations, we have been identifying and realising opportunities to further optimise our production. In addition to driving efficiencies at our Belle Vue operation, we are also focusing on our Côte d'Ivoire operations with the objective of producing more sugar at a lower cost by reproducing our skills and expertise developed in Mauritius over the years. Moreover, we are reviewing international growth opportunities that harness our technological and process skills.

Our vision is to be a global player in growing cane and manufacturing (specialty) sugar

CAPITAL	MATERIAL INPUTS (2017)	MATERIAL OUTCOMES (2017)
<b>People</b> 	392 permanent employees and 311 temporary employees (Terragri) 154 permanent employees and 296 temporary employees (Terra Milling)	Injury rate: 29.0 including 1 work-related fatality 39.5% drop in accident rate at Terra Milling and 15.9% drop at Terragri Two staff took early retirement
<b>Manufactured</b> 	Installation of a new pre-evaporator to optimise on steam consumption Acquisition of three new TSK centrifugals for better efficiency and quality Automation of weighbridges for improved productivity and reduction in operational costs 867,643 tonnes of cane crushed	424,871 tonnes of own cane harvested 87,397 tonnes of specialty sugars produced in 10 varieties Closure of two weighbridges
<b>Natural</b> 	5,510 hectares of land under cane cultivation 867,643 tonnes of sugar cane milled 9.8 million m <sup>3</sup> of water consumed 250,515 GJ coal-based energy 10,562 tonnes of organic fertilisers 1,174 tonnes of liquid mineral fertilisers 1,141 tonnes of solid fertilisers 1,650 m <sup>3</sup> of diesel	4,294 tonnes of CO <sub>2</sub> (from diesel) 19.8 tonnes of used vehicle tyres 14.5 m <sup>3</sup> of used oil
<b>Social</b> 	Quality relationships with key stakeholders including: MCIA, Terragen, MSS, planters, employees and labour representatives and service providers	4.76% employee turnover rate Zero days lost due to strike action MUR 0.5 million of CSR contribution Closure of Mount garage and dispensary
<b>Intellectual</b> 	Renewal of international certifications including BRC, HACCP, GMP, Halal and C-TPAT	Continuous improvement in manufacturing techniques One new employee with Specialty skills
<b>Financial</b> 	Total borrowings increased by MUR 45.9 million MUR 112.6 million invested in property, plant and equipment. Out of the above investment, MUR 42 million was invested in a new evaporator (co-financed with Terragen) MUR 62.0 million invested in bearer biological assets	Turnover: MUR 1.1 billion (16.8% decrease) Loss: MUR 100.6 (2016: Profit of MUR 90.5 million). 2017 figure includes negative Fair Valuation of Standing Crop of MUR 115.3 million

MATERIAL ISSUE IMPACTING VALUE CREATION	OUR RESPONSE
<b>Continuing volatility in global sugar prices</b> – This year the average selling price on the London Exchange stood at USD 433 compared to USD 499 in 2016 and USD 373 in 2015. In Mauritius, the price of sugar was MUR 11,000 per tonne for crop 2017. In addition, millers and growers have received the following financial aid per tonne: MUR 1,450 from MSS and MUR 1,250 from SIFB. The price for crop 2016 stood at MUR 15,571 per tonne.	With the lower sugar price anticipated to continue at least for the short term, we are focusing on improving efficiencies across our growing and milling operations. We are also striving to increase sugar yields and optimise production of our premium specialty sugars.
<b>Changing global trade dynamics</b> – With effect from 1 <sup>st</sup> October 2017, the European Union abolished its system of sugar quotas, contributing to a supply surplus and lower sugar price, and resulting in a much more competitive market environment.	We welcome the establishment by the MSS of a marketing committee and the appointment of a foreign expert to assist in price negotiations; we are working actively to assist them in strengthening the branding and marketing of Mauritius' sugar, and exploring new market opportunities.

## MATERIAL ISSUE IMPACTING VALUE CREATION (Cont'd) OUR RESPONSE (Cont'd)

**Sustaining supply from small-scale cane producers** – The productivity of our mill and the production capacity of our specialty sugars, requires a regular supply of cane from small-scale independent cane producers. Some farmers are leaving the industry due to insufficient profitability, and there is low interest among the younger generation to work in the fields. This year, the volume of cane secured from planters fell to 442,000 tonnes, down from 478,000 tonnes a decade ago.

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

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

We have undertaken a thorough assessment of water-related risks and opportunities, and are implementing measures to optimise our water consumption and ensure better utilisation of effluents for irrigation.

## Our 2017 performance

Following the 29.3% drop in sugar price, this has been a challenging year for the business, with the Cane cluster posting losses of MUR 100.6 million, down from MUR 90.5 million profits in 2016. Our Mauritian operations incurred losses of MUR 191.4 million, including a standing crop fair value loss of MUR 115.3 million. This was partially offset by the performance of our associate company in Côte d'Ivoire, *Sucrivoire*, in which Terra holds a 25.5% stake. This year *Sucrivoire* contributed MUR 62.6 million to Group profits, down from MUR 78.4 million in 2016.

### Mauritius: Driving efficiencies in a low-price environment

With our Belle Vue operation feeling the impact of the lower sugar price and local market dynamics, it was encouraging to see that our recently introduced efficiency and change management measures are beginning to deliver some gains in our mill, field and garage operations.

This year, 52,635 tonnes of sugar accrued to the Group, comprising 33,224 tonnes attributable to growing operations and 19,411 tonnes to milling operations. Terra Milling produced 87,397 tonnes of sugar *Tel Quel*, of which a record 87,974 tonnes were specialty sugars. The extraction rate was 10.17% (compared to 11.12% in 2016), while the volumes of cane processed declined slightly to 867,643 down from 876,723 tonnes in 2016. Our average yield was 8.66 tonnes of sugar per hectare, with an average sucrose content of 11.6% (compared to 8.77 tonnes and 12.55% respectively in 2016).

We invested MUR 53.2 million (included in capital expenditure of MUR 112.6 million) this year to enhance the mill's performance and improve operational efficiencies. The mill crushed an average of 6,287 tonnes of cane per

day, up from 6,262 tonnes in 2016, and operated on average 20.3 hours per day. The extraction rate of the mill improved to 97.56, up from 97.44, while the average milling rate was 310.1 tonnes per hour, compared to 300.9 in 2016.

We completed the setup of our new financial team, made further progress in the roll-out of activity-based costing and individual performance appraisals, delivering valuable productivity improvement and efficiency gains across our operations and employee teams. Following the recent dissolution of the Mauritius Sugar Producers' Association (MSPA), we have begun the process of direct negotiations with labour syndicates. We made some important progress this year in promoting a culture of health and safety in our operations through a combination of investments in technical equipment and a stronger focus on internal communication and employee training, both of which have contributed to reducing the accident rate across our operations. Despite these efforts it is deeply regrettable to report that one of our employees, Vivien Manuel Lejeune, was fatally injured in an accident involving a Bell loader in October 2017. We have completed an independent investigation into the accident and are taking remedial measures such as conducting awareness sessions, driver's ability assessment, and improving safety measures to prevent such accidents.

### Côte d'Ivoire: Another profitable year

Together with our Ivorian partner (SIFCA) we jointly manage two sugar estates in Côte d'Ivoire, with factories in Borotou and Zuenoula that collectively supply around half of the sugar consumed in the country. Sales in the growing domestic market continue to perform well. This year, production from both sites amounted to 77,600 tonnes, compared to 86,339 tonnes in the prior year. This is mainly due to unfavourable climatic conditions.

*Sucrivoire* sold 108,034 tonnes of sugar in 2017, compared to 102,464 tonnes in 2016.

Our goal is to grow sugar production from current levels to around 160,000 tonnes by 2023. Given recent developments in the country's political, regulatory and governance environment, and this year's encouraging GDP growth rate of 8%, we remain confident that we will deliver on our growth targets.

## Our strategic outlook

We have recently finalised a 2020 Vision aimed at ensuring our resilience and growth in the very challenging current price environment.

Our primary focus is on managing those activities where we are invested at present, driving improved efficiencies and optimising production. We have prioritised the following areas:

- Identifying and realising specific practical opportunities for improved efficiencies and enhanced productivity:

- across our workforce;
- through our procurement practices and productivity improvement programme;
- by implementing more efficient harvesting and soil preparation measures; and
- by introducing new technologies and field maintenance activities
- Retaining a strong focus on driving a culture change process across the operation
- Working actively in finding solutions to motivate and retain small-scale farmers
- Driving continuous improvement in our manufacturing techniques
- Optimising our water consumption and ensuring better utilisation of effluents for irrigation
- Maintaining our close collaboration with MSS regarding the pricing and volumes of specialty sugars.

We will also be exploring opportunities for international 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

