

CHAIRMAN'S Message

It gives me pleasure to present Terra's first annual Integrated Report. In line with corporate governance and accountability trends, both globally and nationally, we have taken the decision this year to produce an integrated report that seeks to apply the recommendations provided in the IIRC's International <IR> Framework. Our aim in this report is to articulate Terra's strategic framework for long-term value creation, and to provide the company's shareholders – and other interested stakeholders – with a concise review of the Group's performance and governance practices for the financial year.

This is the second full year in which Terra has been implementing its new strategy, under the leadership of Managing Director, Nicolas Maigrot, and his young dynamic management team. The strategy, which focuses on optimising value from the Group's core assets across the cane value chain, represents a significant departure from the previous focus on business diversification, and is already demonstrating its potential to deliver sustainable value creation within a challenging operating environment.

A challenging business context

Our business transformation has been undertaken in the context of increasing global volatility, characterised by rapid and profound changes in technology, growing nationalism and populism, and increasing evidence of greater protectionism. We are also seeing signs of headwinds in financial markets, with inflation levels diminishing purchasing power, and with concerns around a potential readjustment in financial markets impacting negatively on consumer, business and investor sentiment.

One of the most significant challenges we faced this year was the significant drop in the global sugar price, following

the termination in October 2017 of the EU's system of quotas and minimum pricing for sugar, bringing to an end its cap on sugar beet production that had been in place for almost 50 years. The resulting global supply surplus saw the average price of sugar falling to MUR 11,000 at financial year-end, below the breakeven price for local sugar producers. Given this context, there is an urgent need for all stakeholders across the sugar value chain – cane growers, refiners, other associated sectors and the Government – to work together to enable the Mauritian sugar industry to become as competitive as possible in order to face increased competition from other sugar producers globally.

Domestically, we have seen some favourable developments in the country, with the Government taking concrete measures aimed at boosting Mauritius' reputation as an international financial centre, and attracting further foreign direct investment. While the strengthening of the rupee has negatively impacted the country's competitiveness in certain sectors, and increased our trade deficit, I remain optimistic that we will see sustained levels of economic growth and a further strengthening of consumer demand. We have seen some valuable growth this year in areas such as construction, financial services, tourism and the ICT sector, with local economic activity likely to be further boosted in the coming years by significant public sector investment in the metro express light railway system and other infrastructural projects. The recent economic upturn in Europe will also have beneficial impacts on various sectors of the Mauritian economy, which remains dependent on EU demand for tourism, textiles and sugar.

Generally encouraging performance given the difficult price environment

The depressed global sugar price had a significant negative impact on the Group's overall performance this year, with Group profit after tax down 33.6% year-on-year, to MUR 244.3 million. In the context of this very challenging operating environment, it has been encouraging to see the Group's performance in areas that remain within its control. The performance and prospects across each of Terra's four clusters lend strong support to the Group's strategic focus on delivering value from its core assets.

A particular highlight has been the outstanding level of operational excellence achieved in the **Power** cluster, with Terragen once again being the most reliable and best-value partner for the Central Electricity Board (CEB), providing one of the cheapest sources of electricity for the country's national grid, and delivering strong revenue growth for the Group on the back of enhanced efficiencies. The company's strategic focus is to maintain the reputation it has progressively earned over the year as a reliable and cost-effective energy producer, continuing with its preventative maintenance and efficiency initiatives,

and engaging actively with the CEB to sustain their strong working relationship. In support of the Government's commitment to greener energy, Terragen will be looking to further increase its uptake of cane trash as a renewable energy input.

The **Brands** cluster delivered another year of solid performance, remaining a major actor in its sector and achieving significant progress in revising its brand portfolio and optimising its product mix, with the recently launched M.A.C. cosmetics business delivering particularly encouraging performance. In the context of growing competition, the Brands cluster will be further refining its brand offerings, driving additional efficiencies across the value chain, and reviewing its challenging Uganda business. With a record for innovation and maintaining strong distribution channels, the cluster is well placed to consolidate its position in the market.

Given the current challenging price environment, the **Cane** cluster has adopted a defensive strategy, focusing primarily on reducing costs and improving productivity across its operations, and optimising production of its premium specialty sugars. The strong efficiency drive has already delivered some encouraging productivity improvements this year in its milling, field and garage operations. Looking to the future, the cluster will continue to work closely with the Mauritius Sugar Syndicate, supporting its efforts to strengthen the branding and marketing of Mauritius' sugar, and engaging actively with small-scale planters in an effort to retain them in the sector. The Cane cluster will also be exploring opportunities for possible further international diversification, building on the success of its profitable operations in Côte d'Ivoire.

The progress made this year in the **Property and Leisure** cluster has been remarkable. It has completed the appointment of a diverse and talented team, laid down the organisational structure for the cluster, and made valuable initial inroads in its strategy of unlocking value from the Group's strategically located land holdings. Having secured the letter of intent for the proposed Beau Plan Smart City development, and formally handed over the new campus facilities for the African Leadership College, a key focus for the year ahead will be to give further momentum to the Smart City development, obtaining required certificates and permits, and commencing infrastructure and construction work.

Unfortunately most of the Group's key **associates** had another disappointing year, other than Sucrivoire, the Group's sugar partner in Côte d'Ivoire, and Swan General, the Mauritian insurance and financial solutions provider, both of whom delivered strong performances. While Terra remains committed to supporting its existing investments, it will aim at rationalising its investment portfolio.

CHAIRMAN'S Message (cont'd)

Ensuring effective governance through a diverse Board

Our primary role as the Board is to provide oversight and stewardship, ensuring that the Group's executive team is delivering on its fiduciary duties and doing the best it can with the resources entrusted to it, to ensure long-term value creation. Our job is not to be the driver of new strategic ideas, but rather to ask sharp questions on the strategy that the executive team develops, challenging it on its proposals, motivating it to ensure that all potential opportunities are properly explored, providing it with sufficient capital, manpower and technical resources to achieve these objectives, and holding it accountable to ensure efficient and effective execution of the strategy. In doing so, we are fortunate to have a group of directors on the Board who bring a great diversity of perspective and experience, across both the public and private sectors. We are constantly seeking to improve our governance practices and to encourage greater transparency and accountability – and it is for this reason that we are embracing the global shift to integrated reporting. I encourage you, as one of Terra's stakeholders, to read this report and to give us your feedback, both on our disclosure and our performance.

Appreciation

In closing, and on behalf of the Board, I would like to convey our sincere appreciation to all of Terra's employees for their invaluable contribution to the Group's strong performance under difficult conditions. The Board and I would like also to convey our special thanks to Nicolas Maigrot and his management team for their work in defining the Group's new strategic vision for long-term growth, and for beginning to deliver effectively on this vision. I would like also to express my personal thanks to my colleagues on the Board for their wisdom and advice over the year.

Finally, I wish to extend my deep appreciation to Terra's business partners and to all of its various stakeholders, including particularly those within the Government of Mauritius, for their collaboration in assisting us to deliver on our shared goal of creating value for the benefit of our country. Since its initial establishment as a small sugar factory in 1838, Terra has delivered significant value for its many various stakeholders. I believe that the Group is very well placed to continue to deliver and share value into the future.



Alain Rey
Chairman of the Board
16 May 2018

