MANAGING DIRECTOR'S Message

This has been a challenging year, with the Group's overall performance significantly impacted by worrying developments in the global sugar market. Gross profit for the Group was down by 12.9% to MUR 1,163.5 million, mainly as a result of the 25.4% fall in sugar price. Our local Cane operations suffered an operational loss of MUR 191.4 million, down from a profit of MUR 24.3 million in 2016. This loss was offset by continued strong performances in our other clusters: the Power cluster had a particularly good year, with very high availability and strong efficiency gains delivering good revenue growth; the Brands cluster maintained its position as one of the market leaders, simplifying its business model and optimising its product mix; while the Property and Leisure cluster completed the appointment of its full leadership team, and made valuable initial progress in the development of the Beau Plan Smart City complex.

Given the adverse operational context it has been encouraging to see the progress we have made in implementing our new strategy aimed at optimising value from our assets across the integrated cane value chain. By establishing four autonomous clusters we have driven a strong culture of accountability across the Group. Each cluster has full responsibility for managing its operations and budgeting, and is accountable for ensuring delivery on a clear strategic vision and three-year plan, with an associated set of key performance indicators. This year we finalised the appointment of all executive teams, with some high profile new talent coming into the Group. The talent across the Group provides a critical foundation to our ambition for each cluster to be the best in its respective sector.

Notwithstanding this positive progress in driving our new strategy, there have been certain disappointments over the year. We have not yet finalised the sale of some of our non-core assets that we have been looking to release as part of a clear focus on our core strategy; we remain optimistic, however, that we will be closing some key sales shortly. The recent venture by our Brands cluster in Uganda has not been successful; we have learnt some valuable lessons from this experience, which will be useful in formulating our future international growth plans in this sector. Finally, the profitability of some of our key associates remains a concern; I believe that this vindicates our recent decision to rationalise our portfolio, and to focus on securing value from our core assets and activities.

Responding to the fall in sugar prices

The Group's performance this year has been dominated by the termination, in October 2017, of EU quotas for European beet producers. The ensuing increase in sugar production has seen global sugar prices falling below the cost of production in almost all markets, with significant implications for the Group's business model and the Mauritian sugar sector as a whole, both in terms of growing and milling sugar. Responding to this changing price environment will require a major rethink of current practices in the local sugar industry at a national, sectoral and individual company level.

Nationally, the Mauritian sugar industry operates under a tight regulatory environment, built on a unique model of providing the same sugar price to all producers. While this regulatory context has helped to distribute value across the sugar value chain and the broader Mauritian economy, it is currently hindering the sector's ability to be globally competitive and is significantly undermining our ability to create further value. If the sector is to remain viable, we will need to see greater liberalisation of the regulatory framework, and a progressive move towards a more level playing field, as in other sectors in the country. We believe that the time is right for a full structural reform of the local sugar industry, further consolidating production sites, providing the right environment to retain and attract small-scale sugar planters, and enhancing efficiencies across the whole value chain that influence the price of sugar. Substantial and urgent reform is critical if we are to sustain the business model of planters and millers across the country for the benefit of the Mauritian economy as a whole.

At a sectoral level, the Mauritius Sugar Syndicate (MSS) has a critical role to play as the institution responsible for selling and marketing all locally produced sugar. We are collaborating closely with the MSS in its efforts to strengthen the marketing and branding of Mauritian sugar, with the aim of consolidating the sector's presence in existing markets and to penetrate new ones, including specifically niche markets for premium specialty sugars.

Finally, at a company level, we are working hard to reduce our costs of production by driving strong efficiency gains across all stages of our production chain, while at the same time strengthening our capacity to develop and utilise our expertise in other sugar growing markets.

Our long term strategy for value creation

The recent restructuring of the Group into four autonomous clusters, completed in 2016, reflects our strategic ambition of creating value through our core assets. This is a long-term strategy that will take time to deliver its full potential in terms of profit growth, as we invest over the short-term on the human resources and projects necessary for value creation down the road.

An important development this year was the finalisation of a clear strategic vision for each cluster.

- In the **Cane** cluster our strategic objective is to become, and be recognised as, a highly efficient and innovative sugar producer that exports its expertise internationally. In the current low-price environment, our most immediate priority is to focus on ensuring our resilience, by driving improved efficiencies and enhanced productivity across our workforce in our growing and milling activities. We will also be exploring additional opportunities for international sugar activities, including the existing one in Côte d'Ivoire, using our recognised technological and process skills to grow and mill sugar in carefully selected regions, with our existing operations in Mauritius serving as a training centre and base for developing global best practices.

- In the **Power** cluster, we will focus on maintaining our best-in-class availability and reliability, while further improving operational efficiencies. As part of our commitment to delivering green energy, we will be consolidating the uptake of cane trash as a renewable energy input, and driving our carbon burnout project aimed at transforming coal ash into raw material inputs for cement production. Reflecting our determination to remain the most reliable and cost-effective source of electricity in the country, and as an integral part of our long-term preventative maintenance strategy, we will be investing in revamping our turbine control system and making additional capital investments to maintain the integrity of our site.

- Our strategic objective in the **Brands** cluster is to consolidate our market leadership position in Mauritius, using the outcomes of the recent activity-based costing exercise to optimise our product mix and drive further efficiencies across our distribution channels and supply chain management. We have underestimated the complexity of running a "brand" activity in Uganda and we are taking the necessary steps to remedy the situation. Further investments will be made in Mauritius at the level of the distillery and in the rum ageing activity, while we will continue to be on the lookout to export our know-how.

- In the **Property and Leisure** cluster, our goal is to be recognised as a leading real estate developer in a structured and sustainable environment, seen as the business and residential location of choice in the north of Mauritius. We will be focusing on two principal projects – the Beau Plan Smart City and the Balaclava Golf Estate – as well as realising value over the shorter-term through the carefully considered sale of non-strategic agricultural land aimed at raising cash to finance infrastructure and further boosting the value of our remaining property portfolio.

As part of our drive to maintain a clear strategic focus on these four clusters, we will be rationalising our **investment portfolio**, focusing only on those areas where we have the ability to make a strategic impact.

Acknowledgements

I wish to thank my colleagues on the executive team and top management in each of the clusters for their continued commitment and strong performance in a challenging operating environment. I would also like to thank my colleagues on the Board for their valuable engagements regarding the development and implementation of our strategy. Finally, I would like to express my appreciation to Terra's employees across the Group for their dedication and hard work throughout the year.

Looking ahead, I am confident that we will continue to nurture a strong performance based permanent improvement culture, and drive an ethos of operational excellence, that will give the Group's business units a distinct competitive advantage and enable us to create long-term value for our shareholders and other stakeholders.

Nicolas Maigrot
Managing Director
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