

MANAGING DIRECTOR'S *message*

"Change is the only constant in life"

This quote from the Greek philosopher Heraclitus, some 2,500 years ago, could not be more relevant today.

The Covid-19 has been the most unexpected scenario we could imagine, and it is very difficult to predict how the world will evolve in the coming years. What we know is that Mauritius, as a touristic island, being far from other countries, cannot live in isolation. Unlike economies of continental countries, our economy will be one of the worse hit by the virus. The Stimulus Package that the Government has given, and that it will be providing in the coming months, will only give us a short 'breathing space' before we face the harsh reality. This high dependency on tourism is expected to create massive unemployment and strong pressure on our currency, which we have already started seeing. Coupled with the above, the low level of savings in our country will, in a context of rising unemployment, have a considerable negative impact on demand.

How will Terra navigate in such unpredictable times? Our strategy will need to be constantly reviewed. We will need to be 'agile' so that we can ride the storm and we need to productively engage with Government in order to help the country ride it.

Fortunately, Terra's strong balance sheet will allow us to withhold the economic shocks resulting from the Covid-19 crisis. We have some resilient activities such as our Cane and Power clusters, as well as our investment in the Swan Group, which will hopefully support the less resilient activities in the Property and Leisure and the Brands sectors. 2019 has seen better operational results for Terra; this improvement mainly emanates from the Cane (on account of better sugar prices) and Brands clusters. Our Net Profit after Tax increased by 19% (from MUR 319.6 million in 2018 to MUR 380.7 million in 2019) and the profit attributable to the equity holders of the Company increased by 33% (i.e. from MUR 197.3 million in 2018 to MUR 262.8 million in 2019).

The adoption of the new accounting regulations and guidelines has been a tedious exercise for Terra, but we are now confident that the values shown in our accounts better reflect the net worth of the Group's assets and its financial performance.

In my message to shareholders last year, I highlighted that each of our clusters had been appropriately restructured with strong teams in place, along with compelling three-year strategic plans that provide a clear vision for the Group to deliver long-term value. With strong alignment across the executive team and directors, these structures continue to work well.

MANAGING DIRECTOR'S MESSAGE (CONT'D)

CANE: Improved efficiencies in a challenging price environment

This has been another very challenging year for Terra as the low sugar prices (despite their improvement) continue to place significant pressure on the Group's performance. The price of sugar ex-syndicate increased from MUR 8,700 per tonne in 2018 (the lowest in history) to MUR 11,384 per tonne in 2019, but remained below our break-even price. While additional revenues for by-products, such as molasses, increased the revenue per tonne to approximately MUR 13,104, this is still far from the sustainable price of MUR 17,000, as recognised by the industry. The *bagasse* revenue, as paid by the Government in 2017 and 2018, has not yet been released for the crop year in 2019. The Government has established a specialised committee to work on the matter with Ministries of Agriculture, Finance and Energy and we are hoping for a favourable outcome.

There were three major developments during 2019, which we believe will impact on and shape a sustainable model for the sugar industry going forward:

- The new Workers' Rights Act, which came into force in Mauritius in October 2019 and that will continue to put pressure on our cost of production in an industry that remains very labour intensive and highly regulated;
- The Government appointing the World Bank to commission a report that will make recommendations for sustainability measures for the industry; and
- A biomass framework announced by Government that we hope will provide the right value for *bagasse*.

At a company level, we continued to make representations to the Government to sell sugar at a reasonable price on our local market. Again, we are not seeking subsidies, but rather to be paid our true value to the economy. Given the substantial economic, social and environmental benefits of the Mauritian sugar industry, it is essential that we find solutions to some of the serious challenges that this sector faces.

At a sectoral level, we are working closely with the Mauritius Sugar Syndicate (MSS), the selling and marketing arm for the sugar industry in Mauritius, to move towards more value-added products. Mauritius produces 150,000 tonnes of specialty sugars and we have to recognise the efforts of our factory in helping to achieve this. At a personal level, as President of the MSS this year, I have the responsibility, in these difficult times, to ensure that all stakeholders work towards the same goal. This alignment of vision is necessary in order to have a sustainable sugar industry.

Within the Cane cluster, we have been taking bold steps this year to reduce our costs of production and improve efficiencies. We obtained very concrete results through lean management structures and techniques. We believe we can further reduce our cost of production, despite an inflationary period with the coming into force of the new Worker's Rights Act. However, we will need more flexibility in the future, and we hope that Government will introduce

the right measures to help our industry become more competitive. The shrinkage of land under cane cultivation is a major cause for concern; as an industry, we need to address this issue as a top priority. This year, we also started a trial on organic sugar, working with Bonsucro. Although this is a long-term process, it is essential that we move forward on this issue, especially due to the fact that organic sugar is taking market share from our specialty sugars on European markets.

Unfortunately, with the currently lower oil prices, we do not foresee any improvement in the price of sugar in the world market. Like our industry, the MSS is placing more effort on increasing the production of specialty sugars and is also working on streamlining the sugar refining operations in Mauritius. This combination will help to increase the price of our sugar in the future.

In terms of the Sugar Insurance Fund Board, we can only praise the Government for having paid the fair share of insurance to millers and medium to large-scale planters, which was due in 2018. This is clearly a good sign and shows Government's willingness to find a fair solution for our industry.

At Terra, we remain confident that the sugar industry has a future and will contribute significantly to the Mauritian economy while helping to develop a sustainable Mauritius, especially in these Covid-19 days.

With regards to our Côte d'Ivoire operations, we had another disappointing year at *Sucrivoire*. Major steps need to be taken to improve our competitiveness and efficiency. Terra was appointed as technical advisor and staff will be spending time in Côte d'Ivoire on a regular basis to share expertise. We are confident that this will turn around the situation at *Sucrivoire* and that we should reap the benefits in the future. We have also earmarked a plan to increase our sugar production in Côte d'Ivoire to meet internal demand and we are actively exploring finance opportunities to invest in this exciting project. The successful implementation of this sugar production increase project will determine the future of *Sucrivoire*.

MANAGING DIRECTOR'S

message (cont'd)

POWER: Working towards an energy transition strategy

Our Terragen plant remains 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 426 GWh of electricity with 92% availability and an after-tax profit of MUR 160 million. We increased our share of green energy by increasing the use of cane straw by 20% and *bagasse* by 15%, benefitting from both the improved weather conditions and the Medine sugar plant closure. The Government roadmap towards a greener Mauritius is unequivocal and Terragen will continue to strongly engage to help Mauritius to reduce its carbon emissions. We have signed an agreement for the extension, for the next five years, of our Power Purchase Agreement with the CEB. Our strategy and priority will, nevertheless, be to work in earnest on a model that is sustainable and goes in the direction of increased renewable energy. In this respect, we are working relentlessly on an energy transition strategy and we are aiming to increase our share of renewable energy by 50%. Our interim target is to produce 40% with the possibility to increase further in the coming years. To achieve this, heavy investment will be needed to turn our plant into the first hybrid power plant in the world that uses a unique combination of renewable energies, consisting of *bagasse*, cane straw, and solar energy to produce efficient base load electricity.

BRANDS: Investments deliver excellent results

This has been a substantially better year for the Brands cluster, reflecting the benefits of the investments in the distillery in the prior year, as well as the impact of a more focused strategy. Revenue for the year was up at MUR 2,289 million and profit after tax at MUR 136 million. The exercise on activity-based costing helped to focus our energy on more profitable brands and, despite the continuing difficult trading environment, we had a year of positive sales performance both in our own and managed brands. Grays is also reviewing all its internal processes to become a leaner company, which is promising for the coming years. Our subsidiaries in the Seychelles performed well this year, showing a marked improvement from the year before. We had been anticipating a valuable growth potential in the retail business and luxury hospitality sector, had it not been for the adverse impact of Covid-19 in 2020.

PROPERTY & LEISURE: Laying the foundation for long-term value

This has been a pleasing third full year in operation with the launch of the Beau Plan Smart City in May 2019, an important milestone for us. We met our budget for the year, delivering profit after tax of MUR 269 million and achieving MUR 214 million in rental income, management and development fees for services for the period, a 25% decrease on last year. Major investment infrastructure has been completed to unleash the potential of our smart city, including our retail park with 7,000 square meters that was scheduled to open in November 2020 before the outbreak of the pandemic. The success of a rapid sale of our residential plots and duplex apartments has comforted us on the great place that Beau Plan is and will become.

Covid-19 will obviously impact our activities in our Smart City in the coming years but will in no way be a deterrent to create a vibrant city in the Beau Plan. We unfortunately had to temporarily close *L'Aventure du Sucre*, being principally a tourist attraction.

Despite the pandemic, we still believe firmly that Beau Plan Smart City has a great future. We are currently reviewing our plan, taking into consideration the new environment we are facing. In the aftermath of the Covid-19 crisis, our Development team is extremely motivated and is finding 'out of the box' solutions to address the situation. This being said, the timing and conditions of the re-opening of our borders, coupled with the overall state of our local economy, will directly impact the strategy of our Property and Leisure cluster.

Acknowledgements

The Group's improved operational results are thanks to the hard work and commitment of our people across our various clusters. 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, the more so in the unusual and exceptional circumstances where we found ourselves since mid-March 2020. They all deserve our gratitude for their unflinching commitment and resilience through these difficult times. I would also like to thank my colleagues on the Board for providing valuable advice and oversight as well as their support amidst the Covid-19 crisis.

Looking ahead, I am confident that we have the right people, know-how and plans in place to capitalise on our expertise and create long-term value for our shareholders and other stakeholders, subject however to the consequences of the pandemic, which are yet to be fully apprehended.

We will ride the storm!



Nicolas Maigrot
Managing Director
27 August 2020

