

CHAIRMAN'S message

It gives me pleasure once again to introduce Terra's annual Integrated Report, our third successive integrated report developed in accordance with the IIRC's International <IR> Framework.

The aim of this report is to provide Terra's shareholders, and other interested stakeholders, with a concise review of the Group's performance and governance practices for the financial year, and to outline the Company's strategic framework for long-term value creation. I encourage you, as one of Terra's stakeholders, to read this report and to give us your feedback, both on Terra's disclosure and its performance, as this will help us in our efforts to drive continuous improvement in our governance practices and the Company's performance.

Since the end of Terra's financial year on December 31, 2019, our economy, as well as those of all our main trading partners, have faced the most challenging prospects of containing the ravaging effects of Covid-19, a virus for which, at the time of writing, neither a cure nor a vaccine have yet been found. The regrettable and unfortunate loss of life of thousands across the world, of our families and friends, old and young, often those on the Health Service frontline, have been as devastating as the crippling effects that the various governments' imposed lockdown measures have had on the world economies. Through swift and effective ensuing measures, the Mauritian Government has successfully managed to contain the spread of the virus among the local population and limit the number of regrettable deaths. Unfortunately, however, it has proven extremely difficult, despite the best efforts of Government, to prevent the massive negative economic impact resulting from both the lockdown in Mauritius and the economic recession expected in the economies of our main trading partners. Although it is not possible at this stage to assess the duration and intensity of the unfavourable trade winds on global markets, including Mauritius, we will, at Terra, respond with determination and calm to protect our employees, protect our companies and adjust our strategies to face these new challenges.

Challenging world market conditions alongside structural difficulties

During 2019, we continued to face difficult world market conditions for our sugar production, with the price of sugar remaining below profitability levels, thereby placing continued pressure on the Company and the Group's revenue, profit and share price. While our traditional markets in the EU have been particularly affected, we are also feeling the continuing consequence of Brexit with the uncertainty in the trade negotiations between the UK and the EU negatively impacting one of our main markets.

This should not detract us from the structural difficulties that our highly regulated local sugar industry is facing. We operate in a relatively high cost environment compared to our main competitors in Brazil and India. The provisions of the recently adopted Worker's Rights Act in Mauritius have further increased local operating costs in the sugar industry. While we always seek to make further productivity gains in our operations, such additional costs make it more difficult to reach sustainability levels. It feels like almost a perfect storm for us, with negative pressures on the sales price of sugar and pressures of increasing operating costs; as a result, our Cane cluster remains significantly unprofitable. Fortunately, over the years, we have diversified our operations in other sectors of activity and the positive financial results generated in 2019 in these sectors have helped the Group to cover the losses of our Cane Cluster.

There is an urgent need on the national level to implement the necessary policy and regulatory changes that would allow the local sugar industry to compete on equal terms with its global competitors. We are convinced at Terra that such changes will bring sustainability to a local sugar sector that is still called upon to have huge beneficial repercussions for the country, socially, economically and environmentally. The recently elected Government has shown encouraging and positive signs of wanting to address the issues that continue to impact the competitiveness of our local sugar industry. At Terra, we are more than ever willing to work with the Government and other stakeholders, both locally and abroad, to carve out a sustainable future for the Mauritian Sugar Industry.

CHAIRMAN'S MESSAGE (CONT'D)

Improved operational results in a tough operating environment

2019 is the fourth consecutive year in which Terra has been executing its strategy of optimising value from the Group's core assets across the sugar value-chain and delivering value through its four major clusters: Cane, Power, Brands, and Property and Leisure. Despite the significant challenges associated with the current low sugar prices, we remained resilient against rising costs in the industry and achieved savings of some MUR 150 million over the last four years. While our Group's financial performance this year was not at the levels we are used to, given the operating context it was nevertheless remarkable. I believe that the measures taken, the performance and the prospects for each of Terra's four clusters provide an important foundation for long-term value growth. We will nonetheless need to continually adjust our strategies to uphold the new challenges facing all the economic sectors we are operating in.

Our quest for excellence in our **Cane** cluster and cost containment measures have gathered pace during 2019, with notable improvements in productivity across the entire chain. However, there remains a limit to which productivity gains can be made when costs continue to increase. We anticipate an adjustment of the supply and demand dynamics for sugar over time and we will continue to seek more sustainable avenues such as the production of specialty sugars, which receive a price premium.

Terra continues to engage actively with various key local stakeholders, including in particular with:

- The Mauritian Government to enhance the sector's competitiveness;
- The Mauritius Sugar Syndicate (MSS) to strengthen the branding and marketing of Mauritius' sugar; and
- Small-scale planters in an effort to encourage sustainable plantation of sugar cane.

The Government has recognised that the local Sugar Industry is at a significant cross-road, and that the persistent inherent problems must be addressed as a matter of urgency given the sector's significant contribution to the local economy, both directly and indirectly. This recognition is a very positive sign for us and I remain confident that the long-term fundamentals can be strengthened to allow for a sustainable future for the Mauritian sugar sector.

One of our biggest disappointments this year in our Cane cluster has been the performance of *Sucrivoire*, our associate in Côte d'Ivoire. A combination of adverse weather conditions and management issues presented significant challenges and *Sucrivoire* experienced financial losses. With our help on the technical assistance front, major steps have already been taken to improve its competitiveness and efficiency and we expect better results from this associate in 2020.

We experienced another "world-class" operational performance by our **Power** cluster this year, with Terragen remaining the most efficient and reliable energy provider to the Central Electricity Board (CEB). Terragen also remains one of the most price competitive suppliers to the CEB. Our 20-year contract with CEB to supply electricity to the grid expired in June 2020 and we have signed

an agreement with the CEB for its extension for the next five years, following constructive discussions. In line with Government's environmental policies, we have also offered to the CEB alternative options for Terragen to move from being coal dependent for a substantial part of its input to becoming an almost completely renewable energy supplier over a few years. Such a change would however have an impact on the costs of production and therefore our sale price of energy to CEB. Terragen is willing to keep playing a major role in being the most competitive and reliable supplier of energy to the country and we look forward to working closely with CEB and Government to achieve a gradual transition towards renewable sources of energy.

The **Brands** cluster had a good 2019 year in general despite increased competition. This illustrates our ability to understand our customers' needs, closing down certain lines that were less profitable and benefiting from improvements in our distillery operations. Our subsidiary company in the Seychelles also performed well this year, showing a marked improvement from 2018. This cluster remains well-structured in its bid to keep up with its successful record on innovation. Grays will also continue to seek additional efficiencies across the value chain, maintaining its strong distribution channels and focusing its marketing drive on key brands to maintain our leading role in the sector.

It has been encouraging to see our Beau Plan Smart City development well under way in 2019 with the launch of major infrastructure and construction work. The **Property and Leisure** cluster has made significant progress since its first two years of operation, which were focused on building the team and developing a new strategy, obtaining permits and performing light building works. During 2019, construction works started on the new Retail Centre and residential plots at Beau Plan. We are making significant investments in the various mixed activities of our Beau Plan Smart City, which will cover some 228 hectares in the Pamplemousses region. This development will have a significant impact on this strategic location on the island. With the airport accessible in approximately 40 minutes, we are providing a new "destination" for the population in the north of Mauritius. Notwithstanding the potentially negative impact of the Covid-19 effects on the local economy, the Property and Leisure cluster's performance during the year under review has laid a strong foundation for what we anticipate will be an important economic hub, providing an appealing commercial, residential, education and leisure environment, and a significant source of long-term value growth for the Group.

The Group's key **Associates** had mixed financial results in 2019, with strong performances from our investments in insurance and financial services companies. We had no major divestments in that year, but our emphasis is to maintain an exit strategy from our current non-strategic investments.

Overall, 2019 has been a challenging year for reporting our results, with changes in accounting methods this year and the adoption of new accounting regulations and guidelines. These changes gave rise to a number of impairments and prior year adjustments in our audited accounts.

CHAIRMAN'S

message (cont'd)

Maintaining oversight through a diverse Board

As a Board, our main responsibility is to oversee the Company and the Group's performance and strategic direction, and to ensure that our executive team fulfils its fiduciary and societal responsibilities, whilst maintaining the highest levels of good corporate governance at all times. The ultimate aim is to optimise value for the Group, its employees, its shareholders and other stakeholders. In fulfilling this task, we are fortunate to have a Board that brings valuable diversity in skills, experience and perspective, with directors who have worked across different industry sectors, as well as in academia and government. The annual Board Strategy Session meeting, where members of the Executive Management from each cluster present their strategy for the coming five years, provides an opportunity for the Board to challenge the Executive team. These strategy sessions also allow participants from different clusters to work together, cross-fertilize ideas and understand the importance and dependence of the interconnections between the clusters within the Group. I wish to thank all members of the Board of Directors for their invaluable contribution over 2019 and their support and availability since the Covid-19 outbreak. We were pleased to welcome Mr Pascal Raffray as a non-executive member of the Board of Directors in June 2019 and are pleased with his valuable contributions since joining us.

Appreciation

A company's ability to deliver value depends ultimately on the effort of its people, from the executive and management teams to those working in the fields and factories and on the shop floor. Throughout this challenging year and since the disruptions caused by Covid-19, Terra's employees have continued to make an invaluable contribution to the Group's performance under sometimes very difficult conditions. On behalf of the Board I would like to convey our sincere appreciation to Terra's employees for their continuing motivation and dedication.

Once again and on behalf of the Board, I wish to send my warmest thanks to our Managing Director, Nicolas Maigrot, and his management team for their work in defining and driving the Group's strategic vision. They have shown endless resilience during a very challenging 2019 and helped the Group produce improved financial results. Recently, they have managed the operations with calm and shown compassion while our employees and our subsidiaries were going through difficult times with lockdowns.

I wish once more to thank my colleagues on the Board for their precious advice and assistance, and to extend my deep appreciation to Terra's business partners and stakeholders, including especially those within the Government of Mauritius, for their collaboration throughout the year.

I have no doubt that the Group has the right strategy, systems and talent to deliver substantial value into the future. Reaching its full potential, however, will require further collaboration – with Government, regulators and industry peers – as we seek to address the challenges impeding the competitiveness of the Mauritian Sugar Industry in this very tough price environment. For the good of the country, its people, the economy and our businesses, it is essential that a long-term solution is found, the more so with the unprecedented international challenges we are now facing.



Alain Rey
Chairman of the Board
27 August 2020

