

Chairman's Message



2021 was a catastrophic year in terms of the impact of Covid-19 on the economy of Mauritius. The Mauritian borders were totally closed for eight months of the year, and even the tentative openings in July and October when people could fly in without quarantine, did not ease the impact. Most significantly, Covid-19 created large-scale supply chain disruptions, affecting all our businesses. The cost of freight, particularly for sugar exported to Europe, was significantly higher, impacting our profitability. We also continued to be impacted by a serious drought, thus creating an almost perfect storm of events. Despite this tough environment, our operational performance was quite robust, thanks to the exceptional efforts of our management team to keep all our clusters going. On top of this, there were several notable wins, including the financial compensation we are now getting for *bagasse*, which has contributed to 2021 being a profitable year.

Mauritius was hit by Omicron almost immediately, which barred South African, French and Reunion Island tourists in the last quarter of the year, impacting foreign currency flows into the country. These countries have traditionally been major contributors to Mauritian tourism, so this has been a disaster for the country. Fortunately, the Government-funded wage assistance scheme helped to keep companies alive.

Our first concern has been for the safety and protection of our employees, which was reinforced during the year. Despite the various disruptions in our operations, we have had no layoffs of employees due to the Covid-19 crisis and we have also supported the community at large through the work and efforts of Terra Foundation.

We did not make any significant changes in our business strategy and kept it very much along the lines of what was already in place, adjusting it to the prevailing circumstances. Each of our four clusters had unique operational and market challenges.

OUR DIVERSIFICATION ENABLES RESILIENCE

This is the sixth consecutive year in which Terra has been implementing its strategy of optimising value from the Group's core assets across the sugar value-chain, and delivering value through its four clusters: Cane, Brands, Power, and Property and Leisure. All clusters have one common link: sugar cane and sugar cane fields, yet they remain relatively diversified. The diversification of our operations have enabled us to withstand the operational and market challenges, with improved financial results again generated by the Cane cluster; overall, operations have remained profitable in all four clusters.

The main performance highlight for this year was in the **Cane** cluster due to a combination of improved world prices on sugar, especially for specialty sugars, and significant gains in productivity through operational excellence, leading to cost reductions. Together with the compensation we are now getting for *bagasse*, this has resulted in a profitable year for the cluster despite a drought at the beginning of the year. The bold decision from Government to remunerate *bagasse*, an important cane by-product, with its fair price, represents a substantial economic boost for us and an issue that we have been campaigning on for a long time. The agreed remuneration makes all the difference between being profitable or not.

The major challenge this year has been the ongoing drought, resulting in lower sugar cane input to the factory. There were also logistical challenges with getting spare parts at a crucial time for factory maintenance. The cost of transporting sugar to our markets increased and we managed this as much as we could by opting for more affordable shipping lines. Our strategy to produce specialty sugars that carry a premium has kept us in a good position and our sugar products remain very much in demand, despite the competition globally.

Our overseas associate in Côte d'Ivoire, Sucrivoire, is still very much in the consolidation and expansion phase and we sense significant opportunities there. We remain hopeful that we will be able to work through the ongoing challenges and expect significant contributions from this investment in the coming years.

Our **Brands** cluster has shown huge resilience in a competitive environment with a lot more competitors selling spirits.

The results overall have been very encouraging despite the lower uptake from the hospitality sector. Sales have improved but unfortunately, not to the degree which we had hoped, and we also had some challenges in the reduced quantities of molasses from the sugar factory. Due to changes in ownership, we lost some brands in the snacking business, which was a fairly significant part of our portfolio, and the management team has been proactive in finding new products. Overall, we have seen great performance from Brands in a tough environment.

With the increase in our shareholding at distillery level, Terra now has greater control on these operations, which remain profitable, and this contributes to our overall cluster performance.

Chairman's Message (cont'd)

After a difficult year in 2020, our **Power** cluster returned to a production level, in line with expectations. This remains an exceptionally well-run operation, and the most competitive in terms of price and reliability amongst independent producers.

Despite the very good performance this year, the prevailing contractual terms and conditions with CEB place us in a very unfavourable position, regarding raw material price increases, particularly for coal, and the cluster had to recognise an impairment of the plant and related equipment. With the substantial surge of coal prices following the outbreak of war in Ukraine, Terragen had no other option but to declare Force Majeure under its contract with CEB. The parties are currently engaged in a mediation process to try finding a workable and mutually acceptable solution to this situation.

In our **Property and Leisure** cluster we kept to our overall strategy which has been well defined to increase and provide a quality environment for people living and working in Beau Plan. Despite the huge difficulties faced by the construction sector, we have managed to keep on schedule for most of our projects, except for our retail centre Mahogany Shopping Promenade where we experienced a slight delay in the opening. We re-assessed the pace at which to deliver on some of the developments and adjusted them to cater for certain changes in legislations. All projects have been in huge demand and were sold out; we are seeing an attractive blend of sales and yielding assets for a sustainable performance. The infrastructure being implemented is of a high standard, thereby paving the way towards an even better future. We are expecting significant contributions from this cluster in the coming years.

Overall, given the commendable financial performance, we have increased the dividend paid to our shareholders back to the pre-pandemic level, with expected improvements ahead.

The most affected area of our operations was *L'Aventure du Sucre* given the restrictions on the number of people able to attend events due to Covid-19.

Our efforts to divest in non-core activities remained ongoing but have taken longer than anticipated due to the current context.

A key achievement last year was an important restructuring of our balance sheet, securing long-term finance needs at competitive rates for long-term projects. This put us on a very solid financial footing to achieve our growth targets this year.

MAINTAINING OVERSIGHT THROUGH AN EFFECTIVE BOARD

It is with great sadness to report that we lost two of our colleagues during the year, one a Board member, and the other a member of the management team, both significant contributors to the Group. Alain Vallet was an outstanding Board member, always contributing with a wisdom acquired over the several years he was with us. He had also been heading Grays for many years and worked there for decades, shaping Grays in many ways, and leaving behind a diversified and profitable organisation. He will be sorely missed as a Board member and as a friend. He was a fantastic gentleman.

As a result of a long battle with cancer, we also lost our factory manager from Terra Milling, Ajay Parsan. Ajay was one of the architects in the significant gains in productivity that our sugar operations was able to achieve over the last five years. He was a hugely respected member of the management team and will be sorely missed.

Despite the challenges in the operating environment, there have been many achievements at Board level in our 2021 financial year. We reviewed our Board Committee Charters to bring them in line with new guidelines and regulations following an exercise on charters, committees, and responsibilities. We reviewed and updated our Code of Ethics and produced several new documents on good governance, all published on the Terra website. Terra launched its e-learning platform this year and one of the first modules was on the revamped Code of Ethics. We will be regularly launching a new module on the platform.

The risk assessment exercise that was started in 2020, was fully implemented in 2021, including the development of risk heat maps for each cluster illustrating financial and non-financial risks.

With the initial support of Ernst & Young (EY), we have moved away from one central risk function to a more diversified approach, empowering each head of cluster to take responsibility for the management of inherent and residual risks. This has led to some interesting debates amongst the teams. Living in such a dynamic environment, where we are confronted with risks such as cybersecurity, each cluster taking on its own priority of these risks ultimately ensures better accountability.

OUTLOOK TOWARDS AN UNCERTAIN FUTURE

As of today, we can forecast a very challenging year ahead for Mauritius. Covid-19 remains rampant, albeit with less severe cases, and the logistics and supply chain issues faced in 2021 are likely to continue. With the current geopolitical tensions, particularly the war in Ukraine, we are already seeing a significant increase in petrol, coal and oil prices, creating major inflationary pressures on the world economy and on the economy of Mauritius. In the year ahead we expect to see a rise in interest rates, which will affect profitability and our cash flow, despite the Group not being highly geared. With such an uncertain future, it is difficult to forecast performance and we can only respond through the consistent implementation of our current business strategy. We lived through a very strange and difficult year in 2021, hoping for a major recovery in 2022, and with the prevailing global climate, there is no visibility on how long this could take.

I am confident that we have the right management structure, pool of talent, people, attitude, and the right competencies, to attain both our financial and non-financial objectives. In our Property and Leisure cluster our vision is to make Beau Plan a real showpiece of how to create an integrated living space and we have the right team to do it. Going forward, the extent and speed at which we will roll out our property projects will depend on the local and international environments. Our Cane cluster is as competitive as any other producer on the island, if not better, and in our Brands cluster the results speak for themselves. Our team is doing a great job and we are well placed in that sector. Similarly, for electricity production, we have French partners who are world class in managing operations.

We will maintain a close working relationship with the Government to find a solution for electricity supply, which remains a real challenge. Working with Government on an almost daily basis through our various clusters, has meant that we have developed very constructive means of engagement. A major success this year for our Property and Leisure cluster has been the win-win conclusion of land-swaps with Government for future developments.

We are going to remain extremely prudent in the light of what is being thrown at us. In terms of our risk profile – we will not become more risk-prone; rather we will remain prudent in the way we operate and how we finance operations. We will continue our association with the best partners and contractors across the various businesses and remain agile to respond to any logistics and supply chain problems. Cash flow will remain a key focus and all our cost containment exercises will be reinforced. We will not shy away from opportunities when they arise as it is during these tough times that some of the most important opportunities emerge. We will continue refining our strategy, continue identifying growth projects, and balancing this with our risk profile.

APPRECIATION

This was a very tough year, and all merit should go to our extremely competent management team and dedicated employees for wavering these storms with a very cool head. We never witnessed any panicking, and projects were delivered on schedule and as forecasted.

I wish to thank all members of the Board of Directors for their continuous support over 2021, their availability and willingness to engage in great discussions, not always in total agreement, but with a sense of respect for the different views held. I wish to extend, on my behalf and on Terra's behalf, a special thank you to Margaret Wong Ping Lun, who will be retiring upon closure of the Annual Meeting, for her relentless support at Board level. She has been a competent and hard-working Chair of the Audit and Risk Committee and we thank her for her contribution during these difficult times.

I also wish to extend my deep appreciation to all Terra's business partners and stakeholders, including especially those within the Government of Mauritius, for their proactive collaboration throughout the year. Our shareholders have supported us throughout, and we saw the share price go up significantly in 2021. We are glad that we have been able to come back to an appropriate level of dividend payment and that the markets are appreciative of our efforts.

Times are tough, but we are far from pessimistic. We are continuously strengthening and adjusting our Group activities and leaving no stone unturned to get the company on an even stronger footing.



Alain Rey
Chairman of the Board

07 September 2022