

Managing Director's Message



Is it the end of Covid? Is it the start of a new cold war? We are in the middle of unpredictable times, and both will have a significant impact on Terra's future.

In 2020 the Group stood at a net loss after tax of MUR 210.4 million, while the company posted a profit after tax of MUR 131.5 million. In that difficult year we improved our resilience, therefore enabling us to navigate through these unprecedented times. In 2021 we are posting much better results, with a Group profit after tax of MUR 316.7 million (against a loss of MUR 210.4 million in 2020). The results would have been even better without the impairment on Terragen due to the unprecedented increases in prices of coal.

Our strategy to stay focused and to be amongst the leaders in our field has paid off. In parallel, we continued to review our investment portfolio with a view to streamlining it further and concentrating on strategic investments.

The effect of the Covid-19 pandemic on a small economy like Mauritius has been significant. The closure of borders had a large impact on the tourism industry, which accounts for some 20% of our GDP in a normal year. The lack of revenue, especially foreign currency revenue generated by tourists, seriously affected our economy, with the Mauritian Rupee depreciating against other currencies. In parallel, commodity prices increased sharply over the year, with freight costs up at unprecedented levels. Mauritius being far from its import and export markets was particularly affected both by inflation and the ocean freight issues. This not only relates to higher costs, but also to port efficiency and the availability of fewer shipping lines, which is affecting the country and in turn the activities of Terra.

The Ukraine war will put further pressure on commodity prices, which will in turn impact our activities. On one side, the erosion of the Mauritian Rupee will help our export-orientated companies. Our Cane cluster has benefited from this depreciation, but also from the fact that *bagasse* is now remunerated at a better price, combined with improved global sugar prices. As a result, the price of sugar ex-Syndicate increased from MUR 14,000 in 2020 to MUR 16,765 in 2021. Total revenue including *bagasse* and molasses has increased from MUR 15,600 per tonne in 2020 to MUR 22,000 per tonne in 2021. This could have been even better had freight costs not increased substantially.

On the other side, our Power cluster posted a loss of MUR 384.4 million due to an impairment of our assets given unprecedented increases in coal prices. The coal price is a major concern for Terragen, as revenues and profits are directly linked to it. Our current indexation formula is not adapted to the price of coal reaching certain levels. Over the last 20 years, the price of coal per tonne has oscillated between USD 50 and USD 120; with the Covid-19 crisis combined with the Ukraine war, the price has now reached more than USD 400 per tonne, which was totally unforeseen. We are currently in a mediation process with CEB to try to find a solution to this situation.

Our Brands cluster performed well in 2021. The local demand was sustained and the opening of our borders in the last three months of the year brought a breath of fresh air. We also acquired, in early 2022, the minority 33% stake in Grays Distilling shares to become the sole owner.

Our Property and Leisure cluster exceeded its forecast and posted a profit of MUR 92.3 million in 2021 (compared to a profit of MUR 20.5 million in 2020). Projects have been in good demand and were sold out. Despite the huge difficulties faced by the construction sector, we have managed to keep on schedule the implementation of most of our projects.

In my message to shareholders last year, I highlighted that our strategy would need to be constantly reviewed as we navigate in such unpredictable times. Our compelling three-year strategic plans that provide a clear vision for the Group to deliver long-term value, were adapted to the prevailing Covid-19 context. The agility of each of our clusters, facilitated by the restructuring that took place a few years ago and supported by the strong teams in place, showed the alignment across the executive team and Directors during this tough year, and how well these structures continued to work.

CANE: IMPROVED PROFITS DESPITE BEING A DROUGHT YEAR

This is the second year that the north of the island has been experiencing a drought, resulting in reduced sugar production in 2021, following an already tough year in 2020.

On the positive side, higher world sugar prices have helped the Cane cluster to post a profit of MUR 105.3 million for the year, compared to MUR 40.3 million in 2020.

Managing Director's Message (cont'd)

The sugar industry is now at a crossroad. The World Bank report on the future of the industry has been approved by Government and has clearly pointed out the importance of taking bold steps to revive our sector. Covid-19 has also shed some light over how critical our industry is to the economy of Mauritius. The Government has already announced better *bagasse* prices and the construction of a modern storage facility to improve competitiveness. These bold measures will hopefully put an end to the decline in sugar production in Mauritius. The Government has set a target of going back to 400,000 tonnes of sugar production per year. As a country, our production has reached a dramatical low level of 255,000 tonnes.

Our Côte d'Ivoire operations faced a difficult year in 2021 partly due to climatic conditions and increased costs. We expect 2022 to be another challenging year. Our key focus is to increase production of sugar from 91,000 tonnes to 120,000 tonnes in 2024 to satisfy local demand and at the same time reduce the cost of production.

BRANDS: IMPROVED RESULTS

We obtained better results in our Brands cluster in 2021 due to strong local demand and the opening of borders. All our top brands performed well and the efforts on cost cutting in 2020 bore fruit in 2021. We also became the sole shareholder of Grays Distilling in early 2022.

This is the second year of a short sugar crop and with decreased molasses volumes, this impacted performance at the distillery, leading to a decrease in profitability. Nevertheless, with the new fermentation house that became operational in the second half of the year we have automated a lot of processes, which has improved efficiency in the production of alcohol. Our main concern remains a much-needed improvement in volumes of sugar cane.

Major supply chain issues in Mauritius over the past 12 months – including the lack of service lines coming to the island and containers taking three times longer to get here, as well as poorer efficiency of the port – presented significant logistical problems for Grays.

This impacted on the import of finished goods and raw materials, as well as the export of finished products. Despite this, we still had a fair performance.

POWER: COAL INDEXATION

The extension of our Power Purchase Agreement (PPA) with the CEB, signed in 2020 for five years, ends in June 2025. This extension unfortunately, does not incorporate a full pass-through formula or coal.

The imbalance of the coal element in the price sold to the CEB has and will cause great prejudice to Terragen in the face of commodity price increases. Coal price per tonne moved above USD 400 in March 2022, against an average price of USD 75 over the last 20 years.

In the circumstances, Terragen had no other option but to declare Force Majeure under the PPA with CEB and suspended its operations on 29 April 2022. Operations resumed at the beginning of the crop season, on 27 June 2022, using *bagasse* to generate electricity, and the parties are currently engaged in a mediation process to seek a workable solution.

In parallel, the Government has set an ambitious goal of producing 60% of its energy from renewable sources by 2030 and we have submitted a plan to phase out coal by then. The CEB has asked for an application for a Request for Information (RFI) to see how we can achieve this goal. We have replied to the RFI and are now waiting for the authorities to engage in the process. We are also awaiting the biomass framework to be enacted to better understand how all renewable sources will be remunerated in the future.

PROPERTY AND LEISURE: WE CONTINUE TO DEVELOP AND INVEST FOR THE FUTURE

Our Property and Leisure cluster continued to be impacted by Covid-19, with a second lockdown at the beginning of the year stopping construction operations, delaying the opening of our retail centre Mahogany Shopping Promenade to 24 June 2021. The launch nevertheless, went very well, with 200,000 visitors on average per month, exceeding our initial plans.

The cluster posted a profit of MUR 92.3 million due to higher revenues on land sales, improved sales of non-strategic land, duplex, apartments, and better than expected performance at Mahogany Shopping Promenade.

We saw the successful sale of all our projects, three outside the Smart City and the launch of two projects within the Smart City.

The financial performance of *L'Aventure du Sucre* improved with reduced losses of MUR 10 million (compared to losses of MUR 20 million in 2020).

INVESTMENTS

Our associate in the insurance industry, Swan General Ltd, remained resilient during the year and net profits attributable to Terra amounted to MUR 254.0 million (MUR 213.1 million in 2020). We acquired part of the shares of Grinaker LTA in Rehm-Grinaker Construction Ltd, and the latter was considered as a subsidiary as of July 2021. Our investments performed much better in 2021 with less impairments, and our strategy of divesting our non-core assets and activities is going well.

OUTLOOK

The year ahead will be focused on getting through these unpredictable times. I am confident that we have the right teams in place to achieve this objective. We are expecting better results in 2022.

The real estate cluster will post better results, with major sales in apartments and serviced plots. Construction of the 10,000 square meter business park has begun, and we will continue to tailor our offering at our Mahogany Shopping Promenade, that started well in 2021 with a strong base of visitors. Our strategic move to create a vibrant Smart City in Beau Plan will reap benefits in the coming years.

In terms of Brands, given the very high prevailing inflation we will be taking a cautious approach on local demand as this will likely decline. We hope that with the opening of borders and tourists coming in, this will mitigate any loss in local demand.

We are cautiously optimistic in terms of our Cane cluster; we hope that we have seen the end of the droughts from the last two years, and with a normal crop year we can post better results in 2022. Terragri will benefit both from better world sugar prices and its improved efficiency. We need to look to the future to sustain the sugar industry. With our 100% specialty sugars, the volume of cane will be critical for the future. The MSS has also asked for better protection of the Mauritian market, which will bring additional revenues.

Terragen and our contract with the CEB remains the most pressing concern, especially in the face of increasing commodity input prices.

As announced in the National Budget Speech in June 2021, the long-awaited pricing for *bagasse* (MUR 3,300 per tonne of sugar) was effective as from the 2021 crop season. This provided a new boost to the industry that continues to contribute positively to the national economy.

A good biomass framework that incentivises all producers to plant more is very much needed, and we will work together with the authorities to make this happen. We are grateful to the Minister of Agriculture for acting promptly and swiftly to the recommendations of the World Bank report. Terra being a major player in the sugar industry will give its full support to revive the industry and work closely with authorities. We are still at a critical crossroad and many more bold steps and actions will be needed to achieve the production of 400,000 tonnes of sugar per year.

ACKNOWLEDGEMENTS

During these difficult times we required agility within amongst our workforce, with many employees facing challenging circumstances when working remotely.

I wish to express my appreciation and gratitude 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 their resilience and unflinching commitment in these difficult and unusual times. The results have shown that Terra has a highly professional team, and we can build on this for the future. I would also like to thank my colleagues on the Board for providing valuable advice and oversight, and for taking important decisions on investments for the future. The Board members have provided incredible support amidst the Covid-19 crisis and shown us that they have full confidence in our business strategy and its implementation.

The fact that we have been able to generate profits during this tough period is commendable.

I would also like to thank all the authorities with which we engage, through our various business clusters. We have better working relationships today and we sincerely hope that this will continue.

I am more confident than ever that we have the right structure, people, know-how and business plans in place to capitalise on our expertise and create long-term value for our shareholders and other stakeholders.

We will continue to adapt, to be agile and to ride the storm(s)!



Nicolas Maigrot
Managing Director

07 September 2022