Managing our Material Risks

RISK MANAGEMENT

Terra has a structured and systematic process of identifying and managing all material risks across the Group. At the end of 2020, Ernst & Young (EY) was appointed to review the Risk Management Framework and the Group Risk Policy. During this exercise, the risks of each cluster and those relating to the Group were reassessed. The principal risks that have a material impact on Terra's ability to create value at Group level are outlined in the list below. Cluster-level risks are shown in their respective operational review.

ROLE OF THE BOARD AND AUDIT AND RISK COMMITTEE

The Board provides oversight over Terra's risk framework, policies and processes. While it delegates these matters to the Audit and Risk Committee and a newly designated Group Risk Management Committee, composed of the Managing Director, the Group Chief Finance Officer and the Administrative Executive, it remains ultimately responsible for the development and implementation of the risk management strategy and plan. The Board is satisfied that the Group's risk management processes are effective and details of the internal controls, audit and risk-management framework are shown on pages 102 to 106.

The main residual risks at Group level as at 31 December 2021 are summarised in the list below. Residual risks relate to risks that remain after risk mitigating activities have taken place.

	RISK	CONTRIBUTING FACTORS	RISK MITIGATING ACTIVITIES	YEAR ON YEAR TREND
R1	Unexpected consequences of specific terms of the Power Purchase Agreement (PPA) resulting in difficult operating and financial conditions.	• Lack of visibility on the terms that will apply to the next PPA. • Reduction or stoppage of coal importation, resulting in the power plant not operating at full capacity • Significant increase in coal prices on the international markets.	• Engaging closely with the authorities and the CEB. • A new energy business model has been presented to the government and the CEB that incorporates a plan to carry out the energy transition of the plant to a 100% renewable coal-free model. • Continue to be a reliable and very competitive supplier of electricity to CEB.	New
R2	The risk that the Group is exposed to the consequences of an economic downturn and decline in consumer spending.	• Erosion of purchasing power of local buyers. • Lack of visibility over timing and speed of recovery from pandemic. • Disruption in the supply of imported items. • Loss of sales from the tourism sector. • Loss of tenants due to the impact of the recession. • Increased construction costs.	• Diversified business portfolio helps cushion the impact of a downturn. • Containing capital investment and operational expenses to what is essential. • Some of our businesses are not directly impacted by the pandemic.	Unchanged
R3	The risk that the continued decrease in the supply of cane and its by-products curtails the milling, distilling and power generation activities.	Drop in cane supply is accelerated by the following: • Sharp increase in price of fertilisers. • Decline in number of small and medium planters. • Drop in area available for cultivation as a result of real estate developments by planters. • Urbanisation resulting in challenges to cultivate next to residential areas.	• Advocate to receive the adequate price for *bagasse*/biomass to encourage planters to continue cultivating canes. • Supporting small planters: – Taking initiatives to motivate the next generation of farmers. – Advising small farmers on harvesting, weeding and transporting the cane.	Unchanged
R4	The risk of oversupply of properties on the market results in loss of revenue.	• Increased number of projects are being implemented nationwide and the market has not grown proportionately.	• Property projects are attractively located (in close proximity to sought after locations in the North).	Unchanged