

Managing Director's Message



Looking back on the year

This year, Terra posted a record-high profit after tax of MUR 1,049.5 million, up from MUR 316.7 million in 2021. We further recorded strong growth in earnings per share of MUR 3.93 (2021: MUR 2.03), enabling us to increase the dividend paid to Terra shareholders by 18% to MUR 227.5 million.

Terra's performance demonstrates our resilience and agility to overcome challenges and remain competitive in a challenging economic and consumer environment. It is also important to note that we could not have delivered this result if we did not have a clear strategic plan delivered via four strong and differentiated business clusters. In parallel, we continued to review our investment portfolio to streamline it further and concentrate on strategic investments.

While the operating environment remains challenging, we enjoyed some relief from the effects of the Covid-19 pandemic. The opening up of borders has given hope to the Mauritian economy, and we received one million tourists in 2022, a significant achievement. In addition to the foreign currency revenue from tourists, the economy also benefitted from increased and sustained consumption. These positive trends helped our Brands and Property and Leisure clusters, which performed very well, posting profits of MUR 199.9 million and MUR 292.6 million, respectively.

Unfortunately, we continued to experience heavy inflation, high interest rates, and the ongoing erosion of the Mauritian Rupee. The Ukraine war put further pressure on already elevated commodity prices.

As an export-oriented business, our Cane cluster benefited from the depreciation of the Mauritian Rupee and improved global sugar prices, which are being driven up as a consequence of the Ukraine conflict and its impact on input costs such as energy, fertilizer and logistics. As a result, the price of sugar ex-Syndicate increased from MUR 16,765 in 2021 to MUR 21,500 in 2022. Total revenue (including *bagasse* and molasses) increased from MUR 22,000 per tonne in 2021 to MUR 26,500 per tonne in 2022.

On the other hand, our Power cluster operated in a challenging environment during the year. Our current indexation formula was not adapted to the unforeseeable surge in coal prices resulting from the Covid-19 crisis and Ukraine war. Given the circumstances, Terragen had no other option but to declare Force Majeure under the PPA with CEB and suspend its operations on 29 April 2022. Following a decrease in coal prices, we reached an agreement with the CEB to resume operations as from 29 April 2023 in accordance with the PPA.

Focused strategy execution remains fundamental

Terra continues to optimise value from its core assets across the sugar value-chain and deliver 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. Diversifying our operations has strengthened our overall position and made us even more competitive. In particular, the diversification offered by our clusters remains critical to enhance resilience and earnings growth.

The Group strategy revolves around five key focus areas: concentrating on our core activities; strengthening these activities; divesting from non-core and non-strategic activities; identifying opportunities for our key activities to cohabit; and developing the capacity to invest in new strategic growth opportunities.

Cash flow and liquidity management remain critical to support strategy execution, and we continue to strengthen our capacity to generate cash from the business. This includes pursuing land conversion rights to unlock cash and enable us to invest in yielding assets, mainly through our Property and Leisure cluster.

As part of our long-term strategy, we developed a 25-year master plan to establish how our real estate investments will coexist with our sugar cane production in the coming years. With better sugar yields (underpinned by heavy investment in lean manufacturing practices and reduced production costs), we believe better yields will mitigate the smaller amount of land for cane cultivation. Therefore, while there is a strong attraction for real estate in the North of Mauritius, Terra remains committed to stabilising our sugar production whilst simultaneously retaining our sugar and energy activities as a key pillar of the Group in the future.

We remain confident in the robustness of our strategic plans and are proud of our team's sustained efforts to execute our resulting initiatives and enable us to continue moving forward.

Managing Director's Message (Cont'd)

Our 2022 performance

Cane: a record performance despite the ongoing drought

As mentioned earlier, improved global sugar prices helped our Cane cluster achieve profits of MUR 329 million (2021: MUR 105.3 million). We also posted excellent results at Terra Milling, supported by the sale of value-added specialty sugars. We achieved these results despite a low cane yield in 2022 and an ongoing drought, which impacted sugar production and replantation volumes. It should also be noted that approximately MUR 50 million in profits was due to the late 2021 crop harvested in January 2022.

For our overseas associate in Côte d'Ivoire, Sucrivoire, the strategy to increase production from 90,000 to 120,000 tons is progressing very slowly, mainly due to operational delays and financial constraints. The management structure is being reviewed and a new CEO has been appointed in February 2023. The coming years will be challenging, and a major restructuring of the company will need to take place.

Brands: a strong performance and turnaround

The performance of our Brands cluster continued to improve this year, primarily due to our borders being open for the full year and the strong contribution made by the tourism and hospitality sectors. The cluster also benefitted from the high inflationary environment. Turnover increased from MUR 2,182.8 million to MUR 2,656.5 million.

Grays Distilling posted good results despite being impacted by the smaller sugar cane crop in 2022 and the diminishing molasses supply. Profits increased from MUR 7.5 million to MUR 27.2 million. To mitigate the reduced molasses supply, we are investigating producing organic rum and rum made from cane juice (*rhum agricole*) to tap into specialised, higher-value rum products. Our strategy to invest in rum cellars to sell aged rum and move out of commodity rum is ongoing. We also continue to focus on fully automating our distilling and fermentation processes to drive efficiency.

The profitability of Grays Inc. increased from MUR 75 million to MUR 82.9 million in 2022. This is a strong performance and demonstrates a pleasing recovery to pre-pandemic levels. The performance of these two main contributors of the Brands cluster together with the contribution from other subsidiaries for MUR 44.3 million and associates for MUR 45.5 million led the Brands cluster to improve its profitability by 46% and to post a profit after tax of MUR 199.9 million.

Power: performance impacted by the unadapted coal indexation

As mentioned last year, our contract with CEB does not have a full pass-through formula for coal, which impacted our ability to run the plant at its optimal capacity. Given the circumstances and the exceptionally high coal prices, Terragen had no option but to declare Force Majeure under the PPA with CEB and suspend its operations. We resumed operations at the beginning of the crop season using only *bagasse* to generate electricity but suspended operations at the end of the crop season as coal prices remained significantly high. The MUR 77 million of operational losses of Terragen were mitigated by the share of associate's profits of MUR 23.4 million and a net reversal of deferred tax provision of MUR 110 million. The cluster therefore realised net profits of MUR 56.4 million, compared to losses of MUR 384.4 million in 2021.

We noted the lower coal prices at the start of 2023; as this was a mitigating factor of the Force Majeure, Terragen could restart production using coal. An agreement was reached in this respect with the CEB on 29 April 2023, and Terragen is now back on the grid.

In parallel, the Government has set an ambitious goal of producing 60% of its energy from renewable sources by 2030. In 2021, the CEB asked for an application for a Request for Information (RFI) to see how we can achieve this goal. We have duly replied and look forward to engage. The biomass framework has been approved by Government and will pave the way to reach the objective of producing more energy from renewables.

Aside from short-term challenges, we remain focused on developing a long-term strategy for Terragen that will move us towards more sustainable energy sources and a greener power plant.

Property and Leisure: we continue to develop and invest for the future

Our Property and Leisure cluster posted excellent results this year, increasing profits from MUR 92.3 million in 2021 to MUR 292.6 million in 2022. Higher land sales, service fees, and the good performance to date of the Mahogany Shopping Promenade boosted the cluster's performance. We also successfully delivered the first phase of Mango Village and saw good momentum on our new office building, the Strand, and our Beau Plan Business District.

L'Aventure du Sucre also posted excellent results on the back of the opening of borders and an influx of tourists. Profits surged to a high of MUR 17.7 million in 2022 compared to loss of MUR 10 million in 2021.

Our yielding assets continue to perform well, and we remain confident in the potential of our Beau Plan Smart City and other identified real estate zones. We are particularly pleased with the response of locals and internationals, with all projects launched to date being very well received by the market.

Investments

Excluding fair value adjustments, our investments performed satisfactorily in 2022. We are still in the process of selling part of our investment portfolio to focus on our core activities, and we hope to be able to announce further progress on this in 2023. Strategic exits provide a cash injection that we can reinvest into Terra and use to enhance our clusters further.

Outlook

While times remain challenging and unpredictable, we are confident that we have the right teams and strategies in place to maintain this momentum and deliver another strong performance in 2023.

In our Cane cluster, crop production in Mauritius continues to be impacted by drought conditions, and the cane growth period for our 2023 crop will likely be impacted. However, we reckon that global sugar prices should remain high. The know-how that Terra Milling has developed over the years will continue to benefit the cluster. We do however expect another difficult year in Sucrivoire and hope to turnaround as from 2024.

Improved global sugar prices have also helped the sugar industry and encouraged renewed investment in cane-growing activities. This will hopefully help to improve sugar yields and sugar volumes in Mauritius.

Our Property and Leisure cluster should enjoy another good year. Our Beau Plan Smart City will continue to develop and offer more activities. 2023 will see the opening of The Strand, our new 10,000 m² business park that will change the dynamic of our Smart City, as another 500 people will visit the park for work daily. We will continue to engage with Government and other stakeholders to unlock land near our Smart City and along the coast, which opens up opportunities for new offerings. We are confident that our move to create a vibrant Smart City in Beau Plan will continue to reap benefits.

Regarding Brands, we will take a cautious approach to local demand which will likely decline given the very high prevailing inflation. However, the cluster should continue to benefit from the strong uptick in the hospitality and tourism sectors. We believe our distilling and commercial operations will perform well in 2023.

With regard to the Power cluster, we are of the view that there are significant opportunities to engage on renewable energy solutions. Terragen will therefore continue to work with the CEB to see how to phase out coal in the future and produce green electricity for the benefit of all Mauritians.

In our outlook for the year, we remain mindful of challenges that might impact performance. These challenges include, for example, inflationary pressures that could affect consumption, rising interest rates that will significantly affect our cost of finance, and the potential oversupply of office space in the future. However, we remain optimistic about the year ahead, boosted by an exciting pipeline of projects and the solid underlying performance of our clusters.

Acknowledgements

I wish to express my appreciation and gratitude to my colleagues on the executive and management teams in each cluster and to all Terra's employees for their resilience and steadfast commitment.

I would also like to thank my colleagues on the Board for providing valuable advice and oversight and making important investment decisions for the future. The Board members have offered incredible support and shown us they have complete confidence in our business strategy and its implementation. I also extend my appreciation to all the authorities with which we regularly engage across our business clusters.

We are building a bright future for Terra and have developed cash-generating clusters that enable us to invest in yielding assets and seek new growth opportunities. I am more confident than ever that we have the right structure, people, know-how and business plans in place to capitalise on these opportunities and continue creating long-term value for our shareholders and other stakeholders.



Nicolas Maigrot
Managing Director

14 June 2023