RISK MANAGEMENT

ALTEO'S RISK MANAGEMENT ENABLES THE GROUP TO BETTER ASSESS THE OPERATING CONTEXT FOR EACH OF ITS CLUSTERS AND THUS ADOPT A CAUTIONARY APPROACH FOR ITS INVESTMENTS AND OPERATIONS. THE FOLLOWING RISKS AND THEIR MITIGATING ACTIONS ARE CLUSTER-SPECIFIC.

For Group-level risk assessment, please refer to pages 79 to 85 of the Corporate Governance Report.

SUGAR – MAURITIUS

RISKS AND MITIGATING ACTIONS

Businesses	Risks	Actions taken/link to strategy
All	Global sugar market conditions and sugar price volatility	• Improved efficiency and cost control • Lobbying for G2G preferential quotas and tariffs • Diversification into higher value sugar products • Geographical diversification of markets • Diversification of revenue streams by optimising revenues from sugar cane byproducts
All	Continuous increase in labour costs	• Accelerate mechanisation of field activities and factory automation initiatives
All	Deadlock with trade unions on collective agreements	• Communicate with all stakeholders to inform them of the cyclical nature of the industry
Alteo Milling Ltd	Reduction in sugar cane supply from planters resulting in idle capacity	• Intensify our planters' support service programme • Collaborate with Government and international experts on the development and implementation of a Biomass Framework

SUGAR – TANZANIA

RISKS AND MITIGATING ACTIONS

Risks	Actions taken/link to strategy
Unfavorable Government approach leading to detrimental industry development, imports and pricing policies	• Constantly engaging with the Sugar Board of Tanzania and the Government on appropriate investment policies that will ensure continued and sustainable growth of the sugar industry in the country.
Climatic events (including floods) resulting in financial loss	• Maintaining clear flood paths and successful execution of drainage masterplan approved by the Board to allow water to pass swiftly through the estate with minimum damage to fields and infrastructure • Adequate disaster recovery plan in place • Insure risk where possible
Substantial increase in the incidence of pests and diseases, especially Yellow Sugarcane Aphid (YSA)	• Close monitoring of infestation levels • Prompt and targeted treatment using proven methodologies whilst also testing biological control initiatives • Planting tolerant varieties
More stringent regulations on occupational health, safety and environment (OHSE)	• Regular review of reported incidents and assessments of efficacy of established control protocols through both internal and external resources to achieve continuous improvement in OHSE risks • Improvements to factory effluents treatment through successful completion of Wetlands project approved by Board.
Ability to attract and retain management competencies	• Defining and creating the right environment that will ensure attraction and retention of high calibre management resources • Adequate succession planning • Train and recruit competent local resources • Delocalisation of some activities through centralization initiatives where feasible. • Appropriate and timely engagement with authorities to allow for smooth obtainment of work permits for skilled foreign staff
Political risk	• Business Continuity Plan in place to promptly react to crisis situations • Political risk and violence insurance covers in place
Availability of water for irrigation	• Regular review of water sources to establish sustainable use patterns • Engagement with authorities to ensure legally established water rights are respected and maintained by all stakeholders, especially within TPC Limited water source tributaries • Investments in boreholes to further secure water supply • Investments in irrigation systems to increase water usage efficiency

SUGAR – KENYA

RISKS AND MITIGATING ACTIONS

Risks	Actions taken/link to strategy
Unfavorable Government policies leading to excessive imports and sugar price volatility	• Constantly engaging with the Kenyan Sugar Directorate on issues relating to sugar import policies • Close monitoring of the domestic market • Continuous investments to increase scale, efficiency, and lower production costs, to be less exposed to the import price parity
Lack of sugar cane supply	• Building long term, trust-based relationships with local farmers by providing agricultural extension services through the decentralisation of agricultural operations • Developing a reliable database of out-growers and using Geographical Information Systems (GIS) to monitor area under cane and generate an accurate harvest planner
Intensification of competition on the market with: • The setting up of new mills in the region and country-wide; and • The privatisation or leasing of state-owned mills.	• Continuous investments to increase scale, efficiency, and lower production costs, to be less exposed to competitive forces
Political risk	• Business Continuity Plan in place to promptly react to crisis situations • Political risk and violence insurance covers in place
Ability to attract and retain management competencies	• Creating the right environment to be able to attract high-calibre management resources • Adequate succession planning
Excess carry over cane leading to: • Discouraged farmers and causing them to uproot cane; and • Social tensions/tensed relationship with farmers – emphasised during an election year.	• Ongoing investments to enhance factory reliability and to increase transport capacities • Prioritising contracted and mature cane • Regular and effective communication channels with the farmers community

ENERGY

RISKS AND MITIGATING ACTIONS

Businesses	Risks	Actions taken/link to strategy
Alteo Energy Ltd	Uncertainty relating to the terms of the renewal of AEnL's PPA ahead of December 2021	• Request for 5-year extension made to CEB • Actively engaging with the CEB
	Government's goal of achieving no coal generated electricity by 2030	• Alignment of Alteo's strategy with the National strategy • New 100% biomass power plant proposed to the CEB
	Viability of new 100% biomass power plant project	• Investigating alternative sources of green fuel for the plant • Working with relevant authorities to develop and implement the Biomass Remuneration Framework
	Increasing costs of inputs	• Coal charges are passed through to CEB • Tariff is indexed to CPI
	Mechanical breakdown	• Preventive maintenance • Renewal of equipment and major overhauls upon renewal of PPAs • Insurance covers
	Lower availability of bagasse	• Working in partnership with the sugar cluster and Alteo Planter's Service to enhance the planters' assistance program
	Abiding to environmental regulations	• Close monitoring of effluents and regular submission of reports to Ministry of Environment as per Environmental Impact Assessment (EIA)
Helios Beau Champ Limited	Equipment breakdown resulting in downtime	• Preventive maintenance • Insurance covers
	Growing vegetation causing shade on panels	• Regular maintenance on vegetation
TPC Limited	Non-renewal of PPA or new PPA with less favorable terms	• Management is engaging well in advance with the distributor to anticipate the renewal of the PPA and preserve current terms.

PROPERTY DEVELOPMENT

RISKS AND MITIGATING ACTIONS

Businesses	Risks	Actions taken/link to strategy
Anahita Estates Limited	No visits from potential buyers due to prolonged closure of Mauritian borders	• Strengthened digital presence to boost visibility and reach potential prospects • Regular communications with homeowners and leads • Commercial actions on the local market (Mauritians and expatriates)
	Inclusion of Mauritius on the European Commission black list and Financial Action Task Force monitoring list	• Optimal level of compliance and due diligence • Collaboration with authorities to reassure stakeholders of good governance practices in Mauritius and within Alteo
	Fierce competition in real estate sales in the IRS/RES/PDS luxury segments and other schemes (Smart City, G+2)	• Focus on serviced land offer and uniqueness of the Anahita destination and lifestyle • Diverse product offering, targeted sales & marketing initiatives • Special attention paid to Anahita homeowners to maximise repeater sales
	Indebtedness level: cash-flow Management	• Implementation of strict operational cost-containment measures • Robust cash-flow monitoring
	Foreign exchange risk on sales	• Sales are mostly denominated in rupees to limit the impact of foreign exchange differences • Use of hedging instruments for sales denominated in foreign currencies
Anahita Residences & Villas Limited	Impact of COVID-19 crisis on tourist arrivals	• Cost containment measures • Strategic review of the business model to generate new sustainable revenue sources • Financial measures to manage temporary cash flow issues
	Foreign exchange risk affecting the competitiveness of Mauritius as a destination	• Market and revenue diversification
	Air connectivity (poor financial state of airline operators)	• On-going discussions with the relevant authorities, through the Association des Hôteliers et Restaurateurs de l'Ile Maurice (AHRIM), to improve air access and tourism policies following the opening of borders
	Increasing competition from "sharing economy" business models, such as Airbnb, as well as the holiday property rental sector in Mauritius	• Continuous investment in services and experiences • Optimisation of direct sales and use of digital technology • New holiday rental activity managed by the Resort to diversify its offer
Anahita Golf Ltd	Increasing competition – Opening up of new golf courses around the island	• Keep the level of the golf course at its best in order to distinguish it from others and provide an exceptional experience to the players • Achieve more synergies with the Resort and the property development arm to increase the visibility of the golf
	Over dependence on resorts within Anahita	• Actions to reach a wider market of players locally but also guests staying in other hotels on the East coast

PRINCIPLE 5: RISK GOVERNANCE AND INTERNAL CONTROL

Internal control and risk management

Alteo's internal control framework supports the execution of its strategy, promotes operational effectiveness and ensures regulatory compliance. The foundation for internal control is set by the Group's risk management framework, financial controls, internal audit and supporting policies.

The activities related to internal control and risk management are part of Alteo's management practices and integrated into the Group's business and planning processes. They are intended to ensure correct, reliable, complete and timely financial reporting and management information, and endorse ethical values and good corporate governance practices.

Each process owner is responsible for the continuous development and improvement of the established procedures, including controls and risk management. The Risk Officer has the responsibility to arrange and lead Alteo's risk management. Internal audit assures the efficiency of risk management in business operations.

The Board maintains full control and direction over appropriate strategic, financial, operational and compliance issues and has put in place an organisational structure with formal delegated authorities and clear operating processes. The Board has empowered the Audit & Risk Committee to ensure that risk management and internal controls are adequate to promote transparency and good governance practices across the various lines of activity. In discharging its responsibility towards the Board, the Audit & Risk Committee relies upon the reports of the internal auditors and management to monitor the adequacy of the Group's risk management and internal controls.

In its effort to strengthen Alteo's risk management framework, the Audit & Risk Committee has mandated PricewaterhouseCoopers Ltd (PwC) to conduct a risk identification and assessment exercise across the Group covering all clusters. An updated Group Risk Register was produced which includes inherent risks, mitigating controls, residual risks, actions to be taken in order to address unacceptable level of residual risks and the responsible person.

PRINCIPLE 5: RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

The Group's key risks are listed below:

	Cluster	Description	Country	Mitigating controls		Rating	Management comments
Risk 1	Sugar	Under-utilisation of milling/refining capacities due to reduced supply of cane.	Mauritius	A more proactive strategy adopted by Alteo Planters Services Ltd, the services arm of Alteo Milling Ltd, with its "à la carte" services provided to out-growers to minimise cane abandonment. Adapting refining equipment to the production of higher value-added special sugars.		20	The declining trend in the supply of cane from within the factory area of Alteo Milling Ltd and at national level is expected to persist. However, the relatively high share of estate grown cane controlled by the Group provides some level of security.
Risk 2	Sugar	Water availability for irrigation.	Tanzania	Significant investments in ground water extraction (boreholes), more efficient irrigation equipment and monitoring of the water table are ongoing. Conversion to less water intensive irrigation systems (drip and semi-solid irrigation systems).		16	The increasing population around the region of TPC Ltd results in pressures on the limited water availability. This situation may adversely affect irrigation activities over the medium to long term.
Risk 3	Sugar	Inability to mill all contracted cane at the optimum age.	Kenya	Additional investments to improve the factory reliability and to increase transport capacities. Regular monitoring of the cane availability using satellite imagery. Adjustments to the cane development program are also ongoing based on latest available yields data.		16	This is considered an emerging risk now that the cane supply has been stabilised. An ageing cane situation may result in a deteriorating relationship with out-growers (loss of trust), breach of the terms of the cane growing contracts and recovery risks regarding advances made to out-growers.
Risk 4	Sugar	Cost pressures impacting on the Sugar cluster performance as a going concern.	Mauritius	Ongoing reduction in the area of high cost manually cultivated and harvested fields. Focus on field mechanisation initiatives (i.e. derocking, mechanised planting and harvesting as well as mechanised cultivation activities such as weeding and fertilisation) and factory automation initiatives. Ongoing implementation of restructuring initiatives. Contracts are established with key suppliers to ensure competitive pricing of supplies. Achieving economies of scale through centralised procurement structure.		20	Ongoing implementation of 3-year turnaround plans for agricultural and milling operations in Mauritius to generate additional revenue and reduce cost of production. Significant cost reductions have been achieved to date. On the other hand, the depreciating rupee and increasing freight and logistics costs are expected to adversely impact operations.
Risk 5	Sugar	Global sugar market conditions and sugar price volatility affecting performance.	All	Geographical diversification of markets (in terms of production sites and export markets where Mauritius has a competitive edge). Diversification into higher value-added products which are less sensitive to global market conditions. Diversification of income sources by optimising revenues from by-products (cane trash, bagasse and molasses).		20	Global and European market conditions continue to improve with a persisting global sugar deficit. Price levels in Mauritius are further supported by the weaker rupee. The Mauritius Sugar Syndicate pursues its strategy of developing new markets for higher value-added sugars and has successfully negotiated preferential access to the Chinese and Indian markets for special sugars. The implementation of a biomass remuneration framework as announced in the last National Budget will further help to stabilise revenues for producers in Mauritius. In Tanzania and Kenya, price levels have been more stable than observed in the past.

PRINCIPLE 5: RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

	Cluster	Description	Country	Mitigating controls		Rating	Management comments
Risk 6	Sugar	Ability to attract and retain management competencies to support our business development objectives.	Tanzania & Kenya	Creating the right environment to attract high calibre management resources. Adequate succession planning. Training and recruiting competent local resources. Constant engagement with authorities to allow for smooth obtention of work permits for skilled expatriate staff. Strategy of delocalisation of selected support services to Mauritius in the short to medium term.		15	East African operations have been able to implement their respective recruitment strategies within a more conducive regulatory environment.
Risk 7	Sugar	Breakdown of major industrial assets.	All	Preventive maintenance of key assets. Contingency and backup measures in place. On-site storage of critical parts as much as possible where sourcing lead time is longer (Kenya and Tanzania). Adequacy of insurance covers reviewed regularly.		16	No major events to report. A review of insurance covers is ongoing.
Risk 8	Sugar	Unfavourable government policy decisions/regulatory environment (market and industry regulations). Political risks.	All	Engage with the relevant Government authorities and regulators to achieve better import/export regulations, better control of illicit sugar and support for the industry when necessary. Support Government initiatives to integrate industry into the broader economy. Insurance covers for political risk and violence. Business continuity plan in place to promptly react to crisis situations.		12	In Mauritius, the introduction of the biomass remuneration framework has finally been announced by the Government. This is a major step towards securing the future sustainability of the cane industry. In Tanzania and Kenya, improved Government control over illicit sugar has stabilised price. No major political risk event to report.
Risk 9	Property	Delay in property sales resulting into cash flow pressures, lower contributions towards fixed costs and debt servicing.	Mauritius	Close monitoring of cash flows of Anahita Estates Limited following the recent restructuring of the company's debt. Engage with the relevant Government authorities and regulators to address regulatory bottlenecks.		20	The Covid-19 crisis has resulted in delays in sales finalisation. The delay in the implementation of amendments to the IRS legal framework which will allow for a higher quota of serviced land to be sold may adversely affect future sales pace at Anahita Estates Limited.
Risk 10	Sugar	Compliance with safety regulations and labour /environmental laws and regulations.	All	Health & Safety officers and consultants to ensure compliance with health & safety requirements in the workplace. Regular compliance audits undertaken. Equipment certification by a registered professional engineer. Adequate insurance covers for industrial accidents.		18	An emerging risk has been identified at Transmara Sugar Company Limited pertaining to the excess bagasse production and potential consequences to the environment. A technical study is ongoing to propose solutions to address this situation.
Risk 11	All	Foreign exchange risk.	All	Centralised treasury function, supported by external treasury advisors, to manage the risks associated with foreign exchange fluctuations for the sale of sugar and property and dividend up streaming. Promoting property sales in rupee when possible. Within the energy cluster, this risk is mitigated through tariff indexation mechanisms within the Power Purchase Agreements.		16	Forex availability on the market has been stretched at times during the year. However, the Group's treasury has enabled prompt supply of currency as and when needed. The recent depreciation of the rupee has generally been beneficial to the Group's sugar operations but has resulted into unrealised forex losses on Euro denominated debt within the property cluster.

PRINCIPLE 5: RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

	Cluster	Description	Country	Mitigating controls	Rating	Management comments
Risk 12	All	Cyber security risks.	All	Investments in adequate IT security hardware and software (firewalls, antivirus and email advance threat protections). Signed service agreements with cyber security consultants for regular reviews of actual IT security systems. Proper backups of Group data offsite. Regular upgrading of antivirus and firewall.	16	No major events to report.
Risk 13	All	Black swan events / Covid-19 crisis	All	Crisis management plans in place.	20	The Covid-19 crisis has further impacted the property cluster this year and particularly Anahita Residences & Villas Limited and Anahita Golf Ltd. Management is securing short term financing plans for both operations.
Risk 14	Sugar	Natural disasters such as floods, droughts and cyclones resulting in loss of revenue due to damage to crops and assets.	All	Mauritius – Operations are covered for excessive rainfall, cyclones and droughts by the crop insurance cover under the Sugar Insurance Fund Act. Kenya and Tanzania – Operations are insured where possible. Disaster Recovery plans in place to limit impact.	16	Mauritius – Crop 2020 has been declared as an event year and adequate insurance compensation has been received. Tanzania – A minor flooding episode has been recorded in April 2021. A Drainage Master Plan that will include improvements to the river dike along the estate is being implemented.

PRINCIPLE 6: REPORTING WITH INTEGRITY

Alteo has applied the Reporting Principles of the Global Reporting Initiative (GRI) Standards for defining report content. In particular, the Materiality Principle was applied to identify material sustainability (i.e., economic, social and environmental) topics, including the Sustainable Development Goals (SDGs). Typically, a material topic is found at the intersection of 'the significance on its economic, social and environmental impacts' and 'the influence it has on stakeholder assessments and decisions'. The latter requires application of Principle 8 of the Code, which is discussed below.

The materiality analyses have been completed for all operations in Mauritius, and the results are given in a standalone report. Given the ongoing impacts of the COVID-19 pandemic, the materiality analyses could not be completed for operations in Tanzania and Kenya. Nevertheless, a plan is being developed to complete the outstanding materiality analyses. The Detailed Clusters Review provides highlights of financial and non-financial performance, with supplementary information found on the Company's website.

The materiality analyses have identified a number of disclosures or performance indicators for tracking economic, social and environmental impacts. The emphasis is now on putting in place a robust data management system with clear protocols for consistent and accurate data collection, based on a data gap analysis that emanated from the materiality analysis. While the focus will be initially on Mauritius, standardization of the data management system will be escalated across all geographical locations in the next 2 years. This time period accounts for variances in data collection approaches, need for human and institutional capacity development and investments in monitoring equipment. Once a robust data management system is in place, the focus can then shift to establishing meaningful targets for material topics in order to institutionalize forward-looking planning and reporting – i.e., to provide an outlook of future development trajectories. For indicators that are already collected and verified using a robust protocol, the setting of targets will begin, taking into account the sustainability context in which operations are taking place and expected to take place in the foreseeable future.

Health and Safety

The Group aims to act as a good employer in providing and maintaining a safe and healthy work environment for all its employees. The objective of the Group is the optimisation of work efficiency and the prevention of accidents at work, through the implementation of safety standards in all its operations across the Group.

Community Engagement and Environment

The Group is fully committed to Corporate Social and Environmental Responsibility (CSER) activities. The Group believes that growth should not be at the expense of the environment and remains sensitive to the climatic change to which the globe is subject.

Charitable Donations and Political Contributions

The amounts of charitable and political donations made by the Group during the year under review are disclosed in the Statutory Disclosures.

PRINCIPLE 7: AUDIT

Internal audit

Alteo's internal audit function has been outsourced to PricewaterhouseCoopers Ltd ("PwC"), which carries out both value enhancement and value protection audits. Value enhancement audits aim to ensure the efficiency of the Group's operations. Value protection audits are intended to assess the effectiveness of internal controls and the risk management within the Group.

As internal auditors, PwC has unrestricted access to the records, management and employees of all operating units of the Group. They report regularly to the Audit & Risk Committee and have a constructive line of communication with Group management.

The internal audit plan is determined through a risk-based approach and mapped to the Group's business risks.
The plan is approved by the Audit & Risk Committee and regularly reviewed to account for significant changes to the risk landscape.

In line with its mandate to be a trusted advisor to the business, PwC discusses its findings with management and provides insight into, and support to the development of risk mitigation action plans. Regular follow-ups are performed to assess the status of implementation of these action plans. Reports detailing internal audit findings are submitted and presented to the Audit & Risk Committee.

The areas reviewed by the internal auditors during the financial year 2020/21 were as follows:

Sugar and Energy clusters

- Close of books and reporting (Mauritius)
- Working capital management (Mauritius)
- Information Technology General Control (Mauritius)
- Weighbridge Operations (Mauritius)
- Health & Safety (Mauritius)
- Follow up report (Mauritius)
- IT General Controls (Kenya)
- Farmers' Accounts (Kenya)
- Follow up of previous recommendations (Kenya)
- Farmers' Accounts and Payments (Kenya)
- Cane Movements (Fields to Mill), Sugar Movement (Mill to Customer) (Kenya)
- Factory Maintenance, Sales and Revenue (Tanzania)