

CHAIRMAN'S MESSAGE

| A year of transition |

JEAN-CLAUDE BÉGA
Chairman



INTRODUCTION

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A YEAR OF TRANSITION

Dear shareholders,

One year has passed since I assumed the chairmanship of UBP. In reflecting on what has been a challenging year for the Group, I am pleased to report on a year of transition, rationalisation and optimisation. Although our financial results do not reflect the progress made, the Group built scale in its core markets, completed large-scale projects to modernise its production processes, continued to focus squarely on its ambitious environmental agenda, and opened new windows of opportunity for expansion.

PERFORMANCE AND MARKET ENVIRONMENT IN FY2023

The world is in a better position since exiting the pandemic. Mauritius is on an encouraging growth trajectory, supported by the rebound in tourism and significant investment in property development and infrastructure projects. Although demand is strong, supply-side challenges made it difficult to fulfil them. The building materials industry is experiencing a period of turbulence: the construction price index saw a significant 20% increase in only two years due to rampant inflation and the soaring cost of raw materials. This has dealt a heavy blow to production costs and profit margins in our core business. Along with this, profitability in the retail business was negatively impacted by escalating labour costs and rental expenses. Against this backdrop, UBP Group delivered a commendable Rs 142 million in profitability during the year. However, our other financial metrics and share price movements were not immune to the headwinds in the market environment.

As a responsible player in our industry, and a business that is very much founded on close ties with all our stakeholders, we were determined to avoid passing our rising costs to consumers. However, we had to face the facts: the impact of imported inputs on our business has been severe, despite our very best efforts to contain cost increases through the optimisation of our processes, without compromising the quality of service offered or the availability of our products. Exceptional trade-offs had to be made to ensure our resilience.

In addition to this, successive spikes in interest rates drove up our finance costs, which increased by 81%, partly due to the large strategic investments made to rationalise the Group's product portfolio:

- In March 2023, we increased our shareholding in Flacq Associated Stonemasters Limited (FAST) from 9.47% to 100% following the majority shareholder's announcement to dispose of its shares. This was an invaluable opportunity for the Group

to strengthen its core activities and expand its market share by leveraging the synergies between businesses in our 'Grey cluster'—UBP, Premix and Drymix (our Core Business) and FAST.

- Premix has been in a transition phase during its first complete financial year under the UBP flag. We invested substantially in upgrading its fleet of trucks and equipment, developing sales and marketing strategies, forming the right team, and building up the credibility of a business that had low brand awareness and exposure prior to 2021. Premix will no doubt see a return on these investments in the form of a stronger brand and improved market presence.
- We are close to completing the acquisition of a group of companies in Reunion Island, pending the satisfaction of conditions precedent. These companies operate in the same industry as UBP in Reunion Island. Once completed, this transaction is expected to significantly increase our Group's revenue, and consolidate our position in the building materials segment, both in Mauritius and in the Indian Ocean.
- Necessary investments were made to ensure our readiness and bring more resilience to our operations. Embracing the winds of change, we have embarked on the profound digitalisation of our operations, from our manufacturing processes to customer engagement. Major automation projects have seen the light of day at the Group level and in individual entities, and are already delivering interesting upsides. For instance, the pilot project at our St Julien plant has already driven down costs, optimised the production capacity and reinforced employees' safety.

In spite of facing adversities, we never stop preparing our business for what lies ahead. Our different business lines are drawing on each other's strengths and expertise with unparalleled efficiency. By offering customers everything under one roof, and investing in our people to bring out their full potential, we are positioning ourselves as a partner of choice for our customers and an enabler of socioeconomic development in the country.

VALUE DELIVERED TO SHAREHOLDERS

UBP has always tried to balance long-term growth and short-term capital allocation, focusing on driving positive returns to our shareholders since our listing on the SEM in 1989. FY 2023 will mark a break in this long track record as one of the few times we were not able to pay dividends to our shareholders. Again, finding ourselves between a rock and a hard place, we had to make difficult trade-offs. Our priority was to give back to our employees, especially those in the lower-income bracket who are particularly vulnerable to the higher cost of living.

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Investing in our people - and other intangible assets such as our intellectual capital - is an investment in the future, especially in an era of knowledge-intensive industries.

I would like to emphasise that UBP has always taken a long-term view of the business, and many of our biggest successes have grown out of times of disruption. What also fills me with optimism for the future is the resilience of our teams. Quite undeterred from the year's adversities, they demonstrated their trademark dedication and ingenuity. I would be remiss if I did not single out the turnaround of Gros Cailloux, which was driven by a high-performing team, united around a common mission. This speaks volumes about UBP's intrinsic strength and adaptability, and leads me to be confident that the situation will equilibrate to be more reflective of UBP Group's true potential, which remains very promising over the long term.

70 YEARS AND COUNTING

This year, UBP celebrates 70 years of existence, a milestone that few companies achieve. It has been an extremely exciting journey, which has seen it grow from one company generating Rs 300,000 in sales in 1953 to a strong Group with a revenue of Rs 4.6 billion in 2023.

As a witness to UBP's achievements of the past 70 years, I have seen every decade serve as an inflection point that strengthened the Group. UBP was formed in 1953 as a merger of three companies. In the 1950s, it became the first company in Mauritius to industrialise the stone-crushing process, playing a central role in the island's development by building essential structures such as roads, infrastructure and houses. After investing in Premix in 1967 and expanding into ready-mixed concrete, the 70s marked UBP's first step overseas, in Seychelles. In the 1990s, UBP made a series of strategic acquisitions and investments, culminating in the inception of Drymix in 1995. The late 1990s and early 2000s saw continued expansion overseas, in Madagascar and in Sri Lanka, and diversification into construction-adjacent segments. The first Espace Maison store opened in 2002 and Gros Cailloux was acquired for its rock bank in 2004. The rest, as they say, is history.

UBP has successfully expanded its core business over the years, while also diversifying into related markets to capture a larger customer base, innovating consistently to pioneer new solutions and deepen our domain expertise. By doing this, we have built a portfolio of distinct yet complementary businesses. We have five verticals that are increasingly digitised and building a competitive advantage in their respective markets, but that also work closely together to serve our shared objectives. In this sense, UBP is stronger than it has ever been.

SUSTAINABILITY IN OUR DNA

I have previously highlighted that one of my primary objectives as Chairman is to bring in my experience in good governance and build on the solid foundations already laid by my predecessors. Responsible business practices and sustainable value creation remain at the centre of our priorities, especially as we look forward to the integration of the Reunion-based companies into UBP Group.

We asked ourselves critical questions in light of the acquisition, such as how to ensure that our parent company and wholly-owned subsidiaries (WOS) operate in a cohesive and harmonious manner across all jurisdictions; how to cascade down sound governance practices to our subsidiaries locally and abroad; and how to speed up approval and decision-making within subsidiaries on matters that depend on the holding company's Board.

In December 2022, our organisational structures were reviewed and simplified, with a dedicated Advisory Committee set up for each WOS and for the Company. These Committees, comprising members of our Management team, report to the Board of Directors on the key strategic and operational issues related to each entity. Having common members on both UBP's Board and WOS Committees ensures that our subsidiaries are collectively working to achieve the Group's objectives. More details on the composition and terms of reference of these Advisory Committees are available in the Corporate Governance Report on page 109.

By the same token, as the risk landscape becomes more convoluted and unpredictable, Board members are called upon to make decisions more swiftly and efficiently, and on matters that were previously not within their purview. Aiming to optimise time management and reduce the clutter of information being presented to Directors, we saw the need to improve our preparation of meetings. Targeted information packs are circulated ahead of meetings, setting apart those that are primarily informational in nature, from those requiring more substantive discussion and debate. Our Directors also have access to a dashboard, which offers real-time information on the key developments within UBP and each WOS. This is promoting a more timely information flow between our subsidiaries and the parent company, and, in turn, supporting more constructive discussions at Board meetings.

All of these changes have already proven their worth in terms of quicker, more agile decision-making. In keeping with UBP's commitment towards continuous improvement, we will strive to further enhance the effectiveness of our frameworks.

We have, to this end, initiated the process for a Board evaluation exercise in FY2024, which will determine whether our composition and matrix of skills and experience are well suited to the Group's strategy.

Environmental and social considerations continue to guide our pursuits and decisions. Operating in an industry that is notorious for its negative impact on the environment has prompted us to embrace circular economy principles and pursue decarbonisation. Amongst other notable actions, Gros Cailloux's commitment to smart agricultural practices is a big stride towards this mission. Our continued investments in digitalisation are also making our operations significantly more resource-efficient and cost-efficient. All of these undertakings are underpinned by our Research and Development team and certified laboratory, which diligently research formulas and product characteristics that will help us set new benchmarks in sustainable construction.

UBP's Sustainability Manager is a representative of the Construction and Public works sector of the Entrepreneurs' Club for Circular Economy, set up by Business Mauritius in October 2021. This participation at the industry level is also critical to ensure that we facilitate inclusive discussions with our peers in the industry and work towards common goals.

Our sustainability as a business, and as a nation, is inextricably tied to the resilience of our communities. As part of our concerted efforts to address deep-rooted societal issues, we continue to carry out projects in impactful areas, such as education and socioeconomic development. While we collaborate closely with NGOs to fund their initiatives, we also deliver in-house programmes aiming to equip vulnerable populations with the skills and capabilities they need to lift themselves out of poverty. We are now in the process of reviewing our CSR & sponsorship approach and reorganising our activities to ensure our efforts are more data-driven and targeted.

PROSPECTS FOR 2024

UBP Group is entering the new financial year on strong footing. The integration of FAST and Premix, coupled with Gros Cailloux's return to profitability and Espace Maison's expansion plans are positioning us for accelerated growth. The Group's ambition to become a one-stop shop is coming to life as we rationalise and optimise our portfolio, pursue our exit plan in Madagascar and Sri Lanka, and relentlessly focus on innovation and technology to stay ahead of the curve.

We intend to continue modernising our operating and governance methods to ensure fair shareholder returns. But we need to do so with awareness and responsibility for the interests of all our stakeholders, including our customers, employees, host communities and partners.

Construction is a challenging sector, and what truly sets one company apart from another is the people behind the business. Growth with purpose has been the cornerstone of UBP's journey since its inception 70 years ago, and this past year was no exception. UBP's family values are embodied by all our people and have unified them into a cohesive team who, together, strive to deliver the very best outcomes for clients. On behalf of the Board of Directors I would like to extend my appreciation to all of UBP's employees, who have been the driving force behind our success. Through customised training programmes, we are determined to ensure that people at every tier have the opportunity to enhance their skills and build a meaningful career within the Group. These initiatives also serve to attract younger talent to replace an ageing and retiring workforce.

APPRECIATION

I would like to extend my gratitude to my fellow members of the Board of Directors for their guidance and support in modernising the Group's governance to serve modern-day needs. This holds the key to our future.

My heartfelt gratitude goes out to François Boullé, who retired after serving as a Non-Executive Director for 19 years. He also chaired the Risk Monitoring Committee for many years, bringing invaluable contributions to how risks are managed within the Group. We thank him for his sharp interventions and wish him the very best in his endeavours.

To our executive and management teams, led by our Group CEO Stéphane Ulcoq: your leadership has been truly remarkable in building a strong UBP culture and setting us firmly on course for better days ahead.

Finally, thank you to our customers, partners and suppliers for accompanying us in the pursuit of our vision *to build together a better living environment*.

Jean-Claude Béga
Chairman