MANAGEMENT DISCUSSION & ANALYSIS

CHIEF EXECUTIVE OFFICER'S REPORT

Submitted by E. Gervase Warner, President & Group CEO, Massy Holdings Ltd.

MASSY ANNUAL REPORT 2016

INTRODUCTION

2016 was a year of mixed reviews. While the Group experienced great accomplishments, which signify a new future for us, Massy also faced some challenges. These challenges were as a result of multiple factors, including operating in weakened economies and vulnerable industries. Other challenges were related to growth initiatives, which did not meet our expectations but which we accept as a part of the risk of pursuing growth and diversifying our portfolio.

FINANCIAL PERFORMANCE

We continue to maintain a strong Balance sheet. This year, Total Cash improved to $2.0 billion, an increase of $350 million when compared to the prior year, as there were strong operating cash flows through effective working capital management. The profit contribution from our Overseas operations strengthened in 2016 contributing 52 percent of Third Party revenue and 51 percent of Profit before Head Office and Other Adjustments (including Costa Rica investment impairment), when compared to 49.5 percent and 39 percent respectively in 2015. This is a reflection of the strength of our geographic diversity. Unfortunately we faced some one-off losses from two investments and losses from two of our subsidiaries. In addition, the effective tax rate in Trinidad and Tobago increased. Together, this resulted in a 13 percent reduction in our Profit Before Tax and 22 percent decline in Earnings Per Share. These challenges are discussed later in this report. Eliminating the one-off gains in the fourth quarter of 2015 and the one-off losses in 2016, the Operating Profit from the subsidiaries and associates in the Group actually grew by 7 percent. This is further explained in the Chief Financial Officer's Report.

RECOGINIZING MILESTONES AND ACHIEVEMENTS

Geographic Diversification

2016 marked an important milestone in the success of the Group's efforts to diversify outside of Trinidad and Tobago. More than 50% of the Group's profit was drawn from contributions of our businesses outside of Trinidad and Tobago. The exemplary performance of our operations in those territories showed real signs of the materialization of our vision to be a regional Force For Good. Our foray into the Automotive and Energy & Industrial Gases sectors in Colombia have proven to be sound investments, already garnering significant and tangible returns. Our OECS-based businesses, namely St. Lucia and St. Vincent, in which we own and operate both retail and distribution arms, also recorded performance improvements for the year. The nascent rebound of the Jamaican economy is also showing promising outcomes for our Industrial Gases and ITC businesses there.

Advancing our Business Strategy

We made a number of significant strides in advancing our business strategy in the region, from the perspective of retail, branding and loyalty:

Setting a New Standard for Retail in Guyana

In March this year, Massy Stores launched its first supermarket in Guyana – the Group's 46th store in the region. Located in Amazonia Mall, East Bank, Demerara the store offers 16,000 square feet of retail space, making it the largest supermarket in the country. At the close of the financial year, the Group recorded a significant increase in the store's customer base. A second store is under construction at the East Coast MovieTowne Complex and scheduled for launch in 2017.

Strengthening Massy's Brand in the Region

We announced in 2014 that the Group undertook a rebranding exercise however at that time, our acquisition of Consolidated Foods Ltd. (CFL) was at a nascent stage. Following a two-year transition period, we undertook the rebranding of 100% of our St. Lucia (11) and St. Vincent (3) locations, including our first Massy Stores Gourmet and Massy Stores Mega formats.

Store modernization across the region

Massy Stores continued to modernize stores in keeping with our strategy of developing and growing our retail footprint. The Group invested approximately $60 million to refurbish 7 stores in 4 countries – 3 in Trinidad and Tobago, 2 in St. Lucia, 1 in St. Vincent and 1 in Barbados. Notably, approximately 40% of our stores have been modernized over the last 3 years, with 40% completed in Trinidad and 44% in St. Lucia.

Regionalization of the Loyalty Programme (Massy Card)

Our vision to launch one card for cross-country mobility came to life in 2016 as we successfully consolidated 7 loyalty programs in Barbados, Guyana, St. Lucia, St. Vincent and Trinidad & Tobago under the Massy Card Loyalty Program. Today, there are approximately 400,000 loyalty cards in the hands of our customers.

Government Gives Green Light for the Natural Gas to Petrochemicals Plant

Several agreements and contracts were renegotiated with the current Government of the Republic of Trinidad and Tobago and the amendments were executed on August 5, 2016. Mechanical completion is scheduled for December 2018 and the plants are expected to be in commercial operation by March 2019. To date, piling has been completed, civil works are ongoing and the importation of construction material has commenced. The conditions precedents for the loan drawdown were satisfied in August 2016 and the first loan drawdown was received in September 2016. Prior to this, construction of the plants was funded by the shareholders via equity injections.

Exemplary performance of Massy Motors Colombia

We experienced tremendous growth in sales of the Mazda brand in Cali, Colombia. Sales in Mazda grew 61%, year-on-year, to 100 cars per month, exceeding the average of 62 cars per month in the previous year. This year also was the first time in the company’s history that sales exceeded 100 or more units in a given month. In addition to impressive sales in Mazda new vehicles, our Mazda workshops have been nationally recognized and awarded for their service standards.

Expansion of the Insurance Business

The insurance operation is successfully executing its regional growth strategy and during the year commenced operations in Cayman, St. Kitts and The British Virgin Islands bringing the total number of territories to 18. Further, in February 2016, we commenced the roll-out of our Bancassurance arrangement with CIBC First Caribbean. We also re-opened an Agency in Bahamas and converted the Guyana Agency to a Branch to achieve greater market focus, brand synergies and efficiencies.

Leadership Transformation

This year we charged ourselves with the task of transforming the leadership of the organization by changing and clearly articulating the expectations of Massy leaders, across all businesses. The expectations are based on more *service-oriented, values-based leadership*, which is recognized as essential to the sustained success of the Group. The roll-out of the new expectations of Massy leaders commenced with a number of workshops conducted by a diverse group of senior executives who created a space for full understanding and appreciation of the responsibilities which are expected of all Massy Leaders. These expectations are: To have a Conscious Awareness of Self; To Serve Our People; To Cultivate Enduring Relationships; To Achieve Values-Based Results and To Co-Create the Future of the Group. There is a full understanding that these expectations will need to be supported by training, coaching and performance management programs which are being implemented as well.

2016 also marked a year of many leadership changes, at the Executive Committee level. Angelique Parisott-Potter succeeded Judith Bowen, who retired this year, as the Senior Vice President – Legal. A lawyer with over 20 years of experience, prior to joining Massy, Angelique served as the Vice President – Human Resources and Administration for BG Group's Egypt Office. Bruce MacKenzie also joined the team as the Group Strategy Officer. Bruce, who is no stranger to the Group, was the Business Development Manager for the then Neal & Massy Energy group, before moving to become the CEO of ASCO Trinidad Limited. Three years later, he has returned to the Group. Peter Graham, who having led the Group's Industrial Gases business in Jamaica, spent the last three years as the CEO of Massy Gas Products (Trinidad) Ltd. In October 2016, Peter assumed the role of Country Manager for Massy's interests in Jamaica, and was promoted to become the Chairman of the Industrial Gases Line of Business in the Energy & Industrial Gases Business Unit.

In 2016, we created the Financial Services Line of Business, separating the Consumer Finance LOB from the Integrated Retail Business Unit and combining it with the Insurance LOB. While there remain great synergies between the Integrated Retail operations and Consumer Finance, the Group believes that its regulated entities would be better run together with the increasing demands for compliance with intensifying regulations. Howard Hall, who has been the CEO of Massy United Insurance for the last 5 years was promoted to become the Chairman of the Financial Services LOB in March 2016.

David Jardim, who had been the CEO of Massy Motors for the last seven years was promoted to become the Chairman of the Automotive & Industrial Equipment LOB in March 2016 and Natalie Karamath, Marketing and New Car Sales Manager, was promoted to take over as the CEO of Massy Motors at the same time. David O'Brien, Executive Vice President, took on the additional leadership of the Financial Services LOB in addition to existing portfolio of the Automotive and Industrial Equipment LOB.

ADDRESSING CHALLENGES

In 2015 we enjoyed the benefits of a number of one-off gains, including the gain on the sale of Melville Shipping, goodwill from our Colombia investments and the release of a number of doubtful debt provisions. However 2016 brought a different fate, instead of those one-off gains of the prior year, the Group has incurred some one-off losses from the sale of our interest in the ITC business in Costa Rica, major maintenance charges at the Oxygen Plant, which we jointly own with Air Products Ltd. as well as losses associated with our delayed launch of Massy Internet | TV (IPTV) service, earlier this year.

Our investment in the IT services company in Costa Rica, namely our acquisition of 20% minority interest in I&G Technologies, was at the time, an attractive opportunity to enter the Central American market. After further evaluation and an examination of the company's ongoing losses concerns about its future earning potential, the Board has taken a decision to sell its investment in the company, which has been recorded as a loss of $45 million.

The Oxygen Plant, which we jointly own with Air Products Ltd., through Caribbean Industrial Gases Unlimited, has been a profitable operation for over 14 years. In 2016, the plant undertook a scheduled major maintenance event. The costs of the maintenance were all taken in 2016 as they could not have been accrued or amortized over a longer period. The plant is back in operations and continues to generate strong cash flow for the owners. The net impact of the maintenance event was an additional (one-off) $32 million expense to the Group's accounts for 2016.

This year we also launched Massy Internet | TV, which developed a strong reputation for service, speed and high-quality HD TV picture quality, with a growing residential subscriber base. Our launch was delayed by three months and there were some unanticipated costs – a relative norm in the start-up phase of new projects. This was a strategic move for the Group, building on the pre-existing fibre optic network which previously serviced the commercial space, exclusively. Transitioning to the residential business has been both rewarding and challenging as the operating landscape in this business is highly competitive and may require some changes to the current operating model to remain sustainable. We are already considering a number of options and look forward to sharing those developments with our shareholders in the following year.

With the exception of these and other one-off occurrences, a comparison of our business performance to the prior year showed an improvement of 7%. Fundamentally, our businesses are doing well and delivering strong results. Going forward we are excited and eagerly anticipate some key developments, including a stronger brand, in new business and services and furthering our strategic agenda. We continue to hold a cash-rich position with more cash than debts and despite concerns around the availability of foreign exchange, we have been able to creatively leverage our Group's diversity on an ongoing basis to source foreign currency to pay our suppliers. Holistically, our priority remains fixed on maximizing growth opportunities and initiatives as well as improving efficiency and service.

FOCUS FOR 2017 AND BEYOND

Operational Efficiency

In FY2017, the Group will pursue a number of continuous improvement initiatives and methodologies, focused on process redesign and other methodologies to continuously maintain a lean, focused organization. Kaizen principles and Process Redesign are being taught throughout the Group to launch a re-examination of our processes and ways of doing business to eliminate waste, frustration and unnecessary cost.

Portfolio Strategy Review

The Group is also considering another strategic planning exercise with external consultants in FY2017 to review its portfolio growth strategy. The exercise would examine the Group's competitive strengths and financial performance in its various industry segments and develop focused strategies for growth and extracting superior financial performance from targeted geographies and sectors. The exercise would also examine the role of the corporate centre and prescribe actions to ensure that the Group is in the right businesses and is being the best owner of those businesses.

Continued "Service-Based" Leadership Transformation

In 2017, the Group will continue to roll-out its leadership transformation programs throughout the Group. This will include listening leadership, facilitated by in-house certified professors and a series of other programs, some internally led and some externally provided for people in leadership roles as well as for front-line supervisors and professionals. The Group recognizes the importance of service as a competitive advantage and will continue to invest in its Customer Service Management System and Customer Service measurement through the use of ACSI (American Customer Service Index) surveys. The Group now has approximately 12,000 employees and fully recognizes the challenge of its transformation undertaking. Great progress has already been achieved on the journey, and the Group is confident that it will eventually get a "Service-Based" culture embedded throughout all of its operations.