MANAGEMENT DISCUSSION & ANALYSIS

CHIEF FINANCIAL OFFICER'S REPORT

Submitted by Paula Rajkumarsingh, Group CFO, Massy Ltd.

MASSY ANNUAL REPORT 2016

Key Items in the 2016 period:

- Third Party Revenue decreased 3 percent or $411 million from $11.9 billion to $11.5 billion. There was a 45 percent or $489 million reduction in revenue from the Energy businesses in Colombia and Trinidad and Tobago.
- Earnings before Finance Costs and Tax decreased by 8 percent, from $960 million in 2015 to $879 million in 2016. The Earnings before Interest and Tax (EBIT) margin declined from 8 percent to 7.6 percent, with a slight decline in the Group's gross margins and there was an increase in the operating expense margin largely due to the reduction in revenue.
- Selling, General and Administrative (SG&A) expenses increased by $73 million or 3 percent, to $2.5 billion.
- Net Finance Costs decreased from $81 million to $57.5 million, largely because of the exchange gains booked at the parent company.
- Interest coverage ratio is 8.5, based on the 2016 results.
- Earnings per Share (EPS) was $5.10, 22 percent below 2015.
- Group Debt remained flat at $2.2 billion.
- Group Cash was $2.0 billion, compared to $1.7 billion in 2015.
- Cash flow from Operating activities was $1.3 billion in 2016.
- Debt to Debt and Equity Ratio decreased from 33 percent in 2015 to 32 percent in 2016.
- The Net assets per share is $49.01.
- The Group paid $828 million in capital expenditure and other investing activities in 2016 (2015: $742 million).

OVERVIEW

The reported year has been a challenging year for the Massy Group. The Group reported a 3 percent reduction in revenue, with 6 percent reduction in Operating Profit from our subsidiaries. Share of Results from Associated Companies reported a loss of $21.5 million compared to a profit of $40.2 million in 2015. In addition, the tax effective rate increased from 27 percent in 2015 to 33 percent in 2016. Overall, this resulted in a reduction in the Earnings per Share (EPS) by 22 percent or $1.43 from $6.53 to $5.10.

The Group's reported results included $115million in losses after tax from four investments and an additional $22 million in new tax charges. This resulted in the reduction in EPS by $1.33. The 20 percent interest in the ITC investment in Costa Rica was impaired following a decision by the Board to exit the investment via a sale of the Group's interest to one of the existing shareholders who has taken the lead for putting additional capital into the company. The Oxygen plant investment jointly owned with Air Products in Trinidad and Tobago incurred major maintenance expenses in 2016. These non-recurring charges contributed to a fall in EPS of 71 cents. The Group also shouldered the blow of a further $31 million in Operating Losses after Tax, from our Massy Internet|TV (IPTV) investment which launched later than planned in February 2016. In addition, our Energy Services Business made losses after tax of $14.8 million in 2016 compared to a loss of 1.3 million in 2015. These investments contributed to a fall in EPS of 39cents.

Included in the tax charges for 2016 were additional business taxes paid in the amount of $9 million due to the increased rate for the Green Fund Levy from 0.1 percent on sales to 0.3 percent on sales, as at March 1, 2016. A further $13 million in deferred tax liabilities were charged in 2016 from the increase in the corporation tax rate in Trinidad and Tobago from 25 percent to 30 percent. This contributed to a fall in EPS of 23cents.

BUSINESS UNIT PERFORMANCE

The economic vulnerabilities throughout Latin America and the Caribbean persisted, and our trading environment remained challenged. The profit contribution from our overseas operations strengthened in 2016 with 52 percent in Third Party revenue and 51 percent in Profit before Head Office and Other Adjustments (including the Costa Rica impairment), when compared to 39 percent in 2015. The shift in performance was partially due to the significant items noted above, compounded by the devaluation of the Trinidad and Tobago dollar. Our retail, distribution and insurance businesses showed improved results over 2015. Within the Energy & Industrial Gases Business Unit, our regionally based Gas Products businesses reported a 7 percent growth in Profit before Interest & Tax while the Energy services business in Trinidad and Tobago posted losses after tax of $14.8 million. A slowdown in the new vehicle sales market in 2016 also impacted growth in the Automotive & Industrial Equipment business.

The following sections highlight key business performance insights for 2016:

The Automotive & Industrial Equipment Business Unit (A&IEBU) concluded the year with a decline in revenue (7 percent) and profitability (19 percent or $49 million). The Earnings before Interest and tax (EBIT) margin was 10 percent in 2016 versus 11 percent in 2015. The Business Unit's primary operation, Massy Motors Ltd, experienced an 8 percent decrease in revenue and there was margin compression in both vehicle sales and rentals.

Our Colombia operations contributed 3 percent to the Business Unit's profitability in 2016 and the Guyana operations grew by 9 percent over 2015. The significant slowdown in the construction sector in Trinidad and Tobago has impacted the Business Unit's sale of capital equipment and parts.

The Energy & Industrial Gases Business Unit (E&IGBU) experienced a decline in revenue of 33 percent or $488 million and profit decline of 13 percent or $31.2 million while the EBIT margin was 17 percent in 2016 versus 12 percent in 2015. Within the E&IGBU, the regional gas products business reported a 7 percent growth in Profit before Interest & Tax while the Energy services business (excluding associates) in Trinidad and Tobago posted losses of $14.8 million. The performance of the sector was significantly affected by depressed conditions across the global petrochemicals industry. The profits from our Colombia Energy Business decreased by 17 percent despite a 56 percent decline in revenue. The revenue mix in Colombia changed with a 95 percent reduction in EPC (Engineering Procurement & Construction) business as most customers reduced their capital expenditure budgets but there was a growth in the Operations & Maintenance line of business. The Business Unit is directly affected by the downward pressure on commodity prices and the associated actions of the energy industry operators in Trinidad and Tobago, Colombia and the wider region to curtail operating cost and defer capital expenditures.

The Information Technology & Communications Business Unit (ITCBU) recorded a revenue decline of 2 percent and a 99 percent reduction in profitability. Our IPTV investment which launched in February 2016 reported operating losses of $40 million, compared to start up losses of $2 million posted in 2015. Excluding the IPTV losses, the EBIT margin remained steady at 17 percent in 2016. The companies in the ITCBU, operating outside of Trinidad and Tobago reported double digit growth while our two main operations in Trinidad and Tobago showed declines in earnings with the slowdown in IT projects from the Government and the Financial Service sectors.

The Integrated Retail Business Unit (IRBU) experienced revenue growth of 3 percent and a 6.5 percent decline in PBT. The EBIT margin decreased from 6 percent to 5 percent. Challenging and competitive trading environments continue to place pressure on margins and comparable sale growth in most of the territories in which we operate. The IRBU continued its network expansion and enhancements, as one new store was opened in Guyana in 2016 while 7 stores were refurbished. The growth in profitability was experienced in the Barbados and St Lucia stores while our Trinidad and Tobago stores showed a decline in profitability of 13 percent. Sales in the Trinidad and Tobago stores declined by 2 percent, and operating costs increased, primarily on account of higher depreciation and employee related costs. The Distribution operations continued to show improvements in their supply chain management and achieved revenue growth of 4.8 percent in the recently-concluded financial year. With the exception of Trinidad and

Tobago, which experienced a marginal decline in revenue, all other territories recorded improved revenue performances fueled by both organic growth and the acquisition of new agencies. When compared to prior year, Profit before Tax (PBT) for the IRBU declined by 6.5 percent however, this was entirely due to the sale of Massy Shipping Services (Trinidad) Ltd. in 2015. Excluding the impact of this divestment, the Distribution businesses realized strong overall PBT growth of 7 percent, despite the challenging economies in which they operate.

The Financial Services Business Unit (FSBU), comprising of our Insurance and Consumer Finance operations, grew in revenue by 17 percent and there was a 40 percent increase in profitability. The Insurance business contributed 55 percent of the profit and grew by 20 percent. Earned Premiums in the Property and Motor line of business improved by 20 percent, when compared to the prior year. There was an improvement in the performance of our northern Caribbean operations and in the motor business in Trinidad and Tobago. The net loss ratio remained flat at 54.5 percent and the combined ratio improved from 97.5 percent to 96.7 percent. Our Barbados-based consumer finance business improved in 2016 largely due to the growth in the Credit card portfolio in Barbados and the restructuring of the business in Trinidad and Tobago.

In Other Investments portfolio, revenue improved by 2 percent and profitability increased by 21 percent. In 2015, Roberts Manufacturing, had a feed quality issue which impacted sales and provisioning.

The ***Head office and unallocated cost*** was $116 million, a decrease of $27 million or 19 percent over the previous year. These costs include head office department costs, unallocated interest costs and several miscellaneous costs which were not allocated to Business Units, and which fluctuate quarterly and annually. Head office department costs decreased again in 2016 by 4 percent primarily due to the strong discretionary expense management. At the parent company, cash held in US currency for investments had an exchange gain following the devaluation of the Trinidad and Tobago dollar in 2016. Pension and Stock grant fair value amounts declined marginally in 2016.

FINANCE COSTS

Interest costs decreased from $81 million to $ 57million. Net foreign exchange gains of $19 million were reported for 2016 versus a foreign exchange loss of $3 million in 2015.

PROFITS FROM ASSOCIATES AND JOINT VENTURES

The results from associated companies and joint ventures decreased from a profit of $40 million to a loss of $21 million. The performance was mixed as our joint venture investment in the Energy Business Unit (Massy Wood Group) contributed to growth, while the major maintenance charge for the Oxygen plant and the sale of the ITC investment in Costa Rica incurred non-recurring expenses totaling $69 million after tax.

TAXATION CHARGE

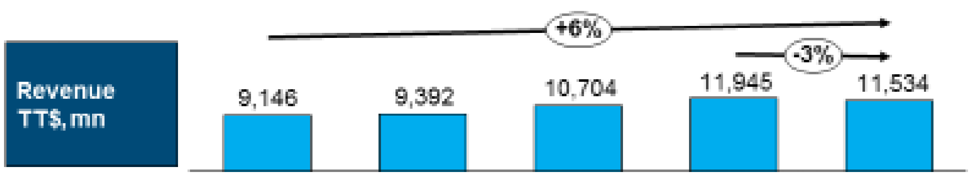
The taxation charge for the Group increased from $251 million to $264 million, and the effective tax rate increased from 27 percent to 33 percent in 2016. Included in the tax charge for 2016 were additional business taxes paid of $9 million in Trinidad and Tobago due to the rate increase for the Green Fund Levy from 0.1 percent on sales to 0.3 percent, as at March 1, 2016. A further $13 million in deferred tax liabilities were charged in 2016 from the increase in the corporation tax rate in Trinidad and Tobago from 25 percent to 30 percent. The increases in the corporation tax and the Green Fund Levy rate impacted the effective rate by 291 basis points. In addition, with the improvement in the contribution from our overseas operations, the tax charge from overseas subsidiaries increased from $72 million to $98 million.

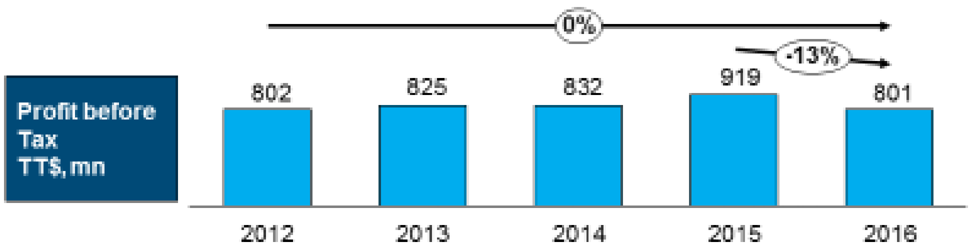
BALANCE SHEET

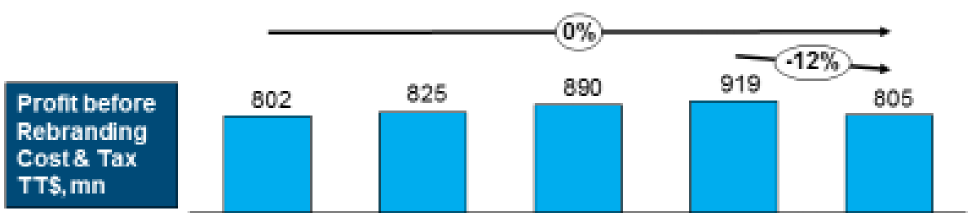
Massy's balance sheet is well supported by significant property assets and long-dated debt. Total assets increased from $10.4 billion to $11 billion at the end of September 2016 and the net assets per share was $49.01. The Group's leverage decreased from 50 percent to 46 percent with the increase in shareholder equity as the borrowing remained flat at $2.2 billion. 71 percent of the borrowings are long-term borrowings in Trinidad and Tobago dollars. Total cash increased to $2.0 billion by $350 million through effective working capital management. Our cash flow used in investing activities was primarily related to the funding of our rental fleet and equipment business and the modernization activities in our retail operations. At the time of this report, the Group had $0.8 billion in capital expenditure approved by the parent board, of which 55 percent was outside of Trinidad and Tobago. Our financial activities had a net outflow of $197 million in cash in 2016, compared to $497 million in 2015. This was largely comprised of dividend payments to our shareholders. The Group has adequate financial resources to support its anticipated short and long-term capital obligations.

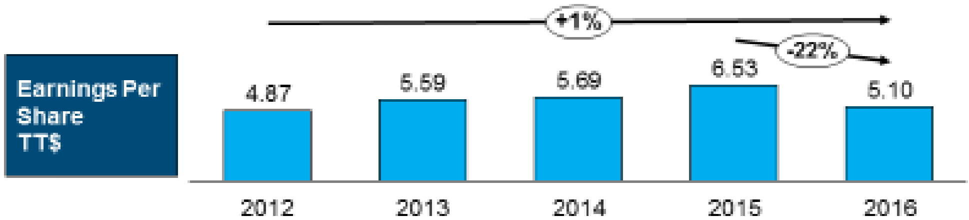
INTERNAL CONTROL AND ASSURANCE

The Group maintains an independent Internal Audit function with a Group–wide mandate to monitor and provide assurance to the Board's Audit Committee and ultimately to the Board of Directors, as to the effectiveness of the internal control systems. The department is also mandated to regularly report its findings to the Board, via the Audit Committee. The annual internal audit plan, which is also approved by the Board, applies a risk–based methodology to ensure that the Group's key risks are appropriately and regularly reviewed. In addition, as part of the annual operating cycle, each business is required to review and report on legal liabilities, financial controls, HSSE issues and business risks. Post–implementation reviews are done on all major capital investment expenditure.








Earnings Per Share TT$
+1%
-22%
4.87
5.59
5.69
6.53
5.10
2012
2013
2014
2015
2016