FINANCIAL REPORT

“Optimising on the Group’s Statement of Financial Position to benefit from the most efficient financing was an inbuilt strategy adopted during the past years.”

(G4-DMA)

It was a real challenge to maintain an acceptable level of economic performance in the financial year. Our business model was put to test with the various challenges facing our sugar segment, mainly the reduced sugar production for the crop 2016. This segment was adversely affected by a reduced Refinery Service Fee and a drop in the sugar production locally. In that respect, early during the year, the Group imported 42,000 tonnes of sugar from the world market to prevent production stoppages in its refinery and ensure smooth running of operations.

On the financial side, further to the update of our 5-year plan, it was decided to curtail our reliance on short term financing to reduce our liquidity risk exposure. This entailed the launching of a three billion multi-currency note programme in June 2016 out of which a first tranche of Rs 1,8 Billion was raised on the market to repay short term facilities. Successful bidders were able to participate through different instruments with different tenors and mixed fixed and floating return profiles.

We also focussed on the refinancing of the KISCOL project. The USD 300 Million project in Southern Kenya successfully achieved same in August 2016. KISCOL secured the support of a consortium of eight Kenyan and Mauritian banks who lent USD 140 Million to the project.

Optimising on the Group’s Statement of Financial Position to benefit from the most efficient financing was an inbuilt strategy adopted during the past years. Accordingly, Omnicane Milling Operations Limited was able to decrease its indebtedness by reducing its dependence on Omnicane Limited for funding.

Strategic Objectives	• Contribute to long-term shareholder value creation through an optimal capital structure • Minimise financial risk through project-financed structures • Diversify sources of finance
Achievements in 2016	• Implementation of the financial strategy derived from the review of the Group’s five year plan • Refinancing of KISCOL and financial close for the Carbon Burn-out project • Rebalancing our debt structure to decrease over-reliance on short term facilities • Gearing of subsidiary company and ease cash flow at holding company level
Priorities in 2017	• Achievement of financial close for our REFAD Rwanda Project • Maximise on our Statement of Financial Position’s potential to reduce the Group’s finance cost • Implementation and follow-up of a new Risk Management Framework • Debt and Capital restructuring in Subsidiary companies

Value Added Statement (G4-EC1)

Direct Economic Statement Generated	2016	2015	2014
	Rs’000	Rs’000	Rs’000
Group turnover	**4,502,280**	4,098,894	3,878,200
Plus income from investments	**111,000**	93,710	104,279
Less production costs	**(2,388,906)**	(2,070,352)	(1,968,613)
Total direct economic value generated	**2,224,374**	2,122,252	2,013,866
Wealth Distributed			
To employees as salaries, wages and other benefits	**713,602**	658,628	589,601
To lenders of capital as interest	**702,013**	678,539	673,476
To shareholders as dividend	**167,531**	167,531	167,531
To government as taxation	**26,613**	11,290	33,971
To communities as corporate social responsibility	**4,401**	3,958	3,866
Total wealth distributed	**1,614,160**	1,519,946	1,468,445

Value Added Statement (G4-EC1) (continued)

Direct Economic Statement Generated	2016	2015	2014
Wealth Reinvested			
Retained profit	**28,873**	106,172	62,563
Depreciation	**581,341**	496,134	482,858
Total wealth reinvested	**610,214**	602,306	545,421

Key financial risks

The key financial risks for the Group are set out on pages 138 to 142 of the financial statements. During the current year under review, the Group engaged into a review of its current risk management framework and BDO Mauritius office was appointed as consultant on the project. The exercise enabled management to identify and analyse the current risk profile to which each department is exposed and the way this is being managed by each respective Head of Department. The exercise was based on the Board's and Senior Management's risk identification and their appetite to each of these risk factors. The major financial risk exposure was identified during the exercise and below include the significant risk exposure of the Group.

Foreign exchange risk

The group is exposed to foreign currency risk in all its operating segments. We are involved in the export of sugar, our power plants have an imported commodity as input and being involved in the Hospitality industry, our customer base consists of both local as well as foreigners. The purchase of molasses used by our distillery is denominated in USD as well as the sale of ethanol on the world market.

Sugar Segment:

Sugar segment revenues are directly impacted by the Euro currency any currency changes directly affects the business. Our main sugar operations are in Mauritius and major cost components are paid in local currency that is, in Mauritian Rupee. Our refinery operations proceeds are in Euro paid by the Mauritius Sugar Syndicate (MSS) in terms of a Refinery Service Fee. To protect the business against currency fluctuation risk, the company embraced a natural hedging strategy by contracting a Euro denominated loan from a local financial institution to hedge its future receivables.

Revenues from the sugar milling and the agricultural operations are in Mauritian Rupee paid by the Mauritius Sugar Syndicate to the respective millers and planters of the Sugar industry. The Syndicate who receives its proceeds from its customers in Euro and other international currencies, fixes the price after allowing for marketing and industry expenses deducted from the proceeds. Foreign exchange risk is however managed by the Syndicate on the account of its members.

Our Kenyan associate sells its sugar on the local market and proceeds are banked in the local currency. All major cost components are in Kenyan Shillings except that the company contracted a syndicated loan denominated in USD. The company entered into a hedging agreement with a local financial institution to hedge against any material adverse fluctuation in the USD against the local currency.

Associates' Real Good Food plc results accounted in the Group financials is influenced by movement in the Pound Sterling when the results are converted in Mauritian Rupees at each reporting date.

Energy segment:

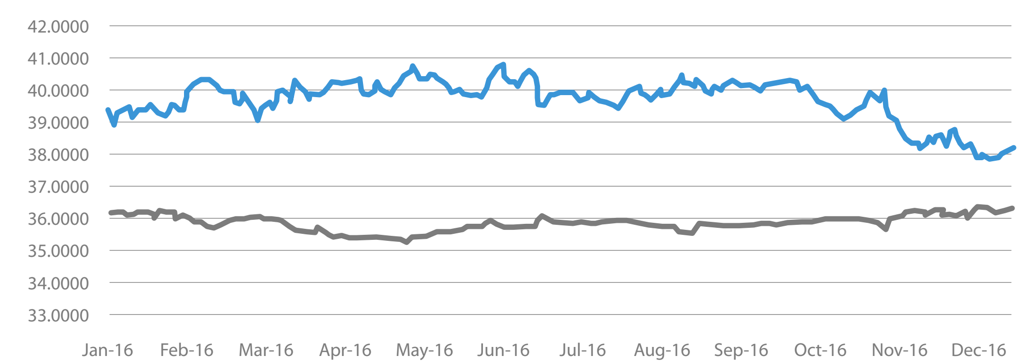
Our energy operations purchase its main input, coal on the world market and this is paid for in USD. The operating companies have a limited exposure to foreign exchange risk as most of it is passed through to the off-taker as per the Power Purchase Agreement.

The distillery invoices its customer, Alco Group in USD which creates an exposure to this currency. The company covenanted a USD denominated loan with a local financial institution to create a natural hedge to mitigate the risk exposition.

Hospitality segment:

Receipts from our Holiday Inn Mon Trésor hotel are mainly denominated in Euro and a significant proportion of its income are banked in other international currencies as well, mainly SA Rand, Pound Sterling and USD. The hotel mitigates this risk by contracting a Euro loan with the European Investment Bank to finance the project.

USD & EUR Against MUR



Omnicane Treasury Management Limited

Entities of the Group entered into a Treasury Management Services Agreement with Omnicane Treasury Management Limited, to manage all foreign exchange risk exposure as well as delivery of corporate treasury management services. Under the agreement, the company advises the Group on all treasury management issues and is responsible to devise the appropriate mechanism to mitigate any financial risk exposure.

At Statement of financial position date, the following foreign currency amount was included in the Group's receivables and payables balance:

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Euro receivables	**99,297**	110,264	50,257
US Dollar receivables	**192,860**	63,207	70,980
UK Pound Sterling receivables	**99**	80	-
Total Foreign currency receivables	**292,256**	173,551	121,237

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Euro payables	**61,823**	53,431	44,556
US Dollar payables	**165,227**	95,161	82,631
UK Pound Sterling payables	**-**	-	-
Total Foreign currency payables	**227,050**	148,592	127,187

The impact of foreign currency in our Statement of Comprehensive income for the Group stood at:

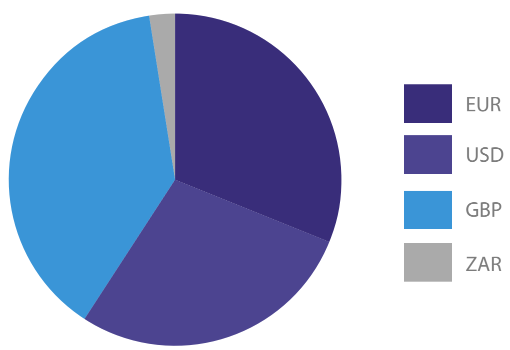
	2016 Rs'000	2015 Rs'000	2014 Rs'000
Foreign exchange (gain)/losses	**(5,308)**	(28,600)	(19,430)

The impact of loan conversion in the Group's financials were as follows:

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Foreign exchange (gain) / losses	**(6,494)**	(64,586)	55,754

Exchange rate – Year average	**2016**	2015	2014
MUR/EUR	**39.60**	38.98	40.38
MUR/USD	**35.89**	35.28	30.67
MUR/GBP	**48.30**	53.87	50.29
MUR/KES	**0.35**	0.36	0.35
MUR/ZAR	**2.46**	2.74	2.81

The Group's Foreign currency transactions recorded in 2016



Interest rate risk

The Group's strategy is to minimise its exposure to short term finance and match its long term projects with the appropriate long term financing. A mixture of term loans and bonds financing were the preferred option as these instruments allows the company to match its financing repayments with the Group's cash flow from each respective projects.

Sugar Segment:

During the financial year, the Group further diversified its debt portfolio by raising bonds carrying different cost profiles of fixed and floating rates. Risk exposure is managed through a mix of fixed and floating interest rate to create a well-balanced portfolio.

Energy and Hospitality Segments:

Debts contracted by our ethanol operations and Holiday Inn Mon Trésor were financed by the European Investment Bank (EIB) and both loans carry fixed interest rate charges. This stood at Rs 586,4 million in the Group's financial statement at the end of the year.

The interest rate risk exposure on our energy power plants at Saint Aubin and La Baraque are minimised as these are passed through to the off-taker as per the contractual agreement.

FINANCIAL REPORT (continued)

Group's Debt portfolio interest rate risk profile:

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Debt instruments with fixed interest rates	**2,430,000**	2,000,000	2,000,000
Debt instruments with variable interest rates	**450,000**	-	-
Term loan carrying fixed interest rates	**897,604**	1,120,281	1,049,395
Term loan carrying variable interest rates	**7,296,094**	7,103,957	5,888,552

Risk Management exercise – Finance

As previously outlined, the Group undertook a full risk management review to identify the risks that is likely to be of significance for each department in accordance with the Board's and Senior Management's objectives and appetite to these risk. The following is a summary of the significant inherent financial risk identified during the exercise and which is being assessed.

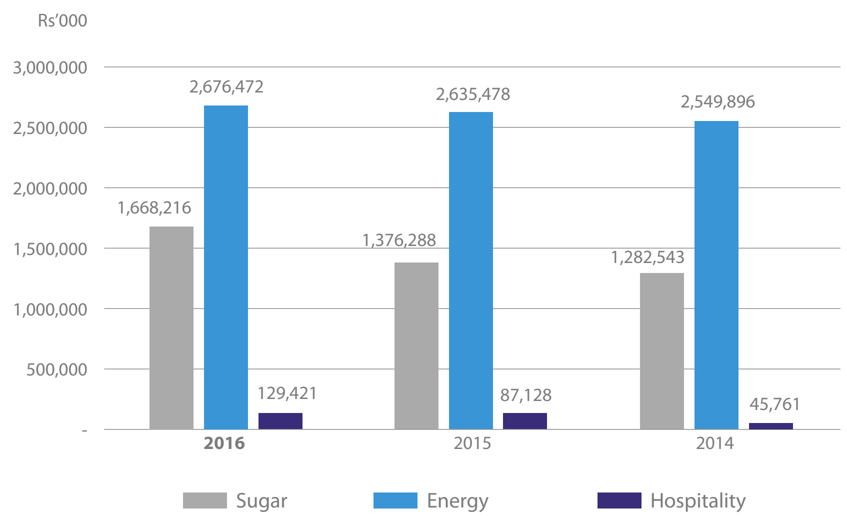
Other main inherent risk identified	**Risk description and management**
Achievement of financial objective	The Board has a low appetite risk that financial objectives are not met and management focus is to ensure that targets are not materially departed from. A 5 year plan exercise is prepared and reviewed on a yearly basis to ensure close monitoring of the risk.
Dependency on providers of capital	The Group entered into several projects through project financing structures with financial institutions. Such risk is inherent to the business but highly mitigated through the appropriate ring-fenced debts limiting recourse to the investing company.
Inability to meet financial covenants	Through project financing and debt instruments raised by the Group, institutions imposes financial objectives and these are tested through financial ratios. As outlined above, the Group has sufficient controls to ensure that financial objectives are met to mitigate this risk.
Project finance risk	The Group undertook several projects through project finance structures. These are however attached to several conditions and financial objectives. Each project is closely monitored to ensure viability and economic return.

Operating performance

Turnover

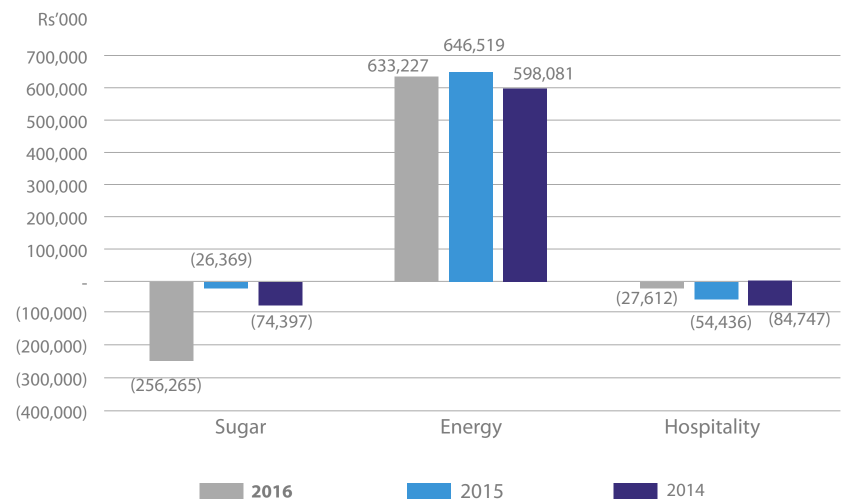
Revenue reached Rs 4.5 billion in 2016, compared to Rs 4.1 billion in 2015, driven by the increase of Rs 291.9 million in the sugar segment following the import of 42,000 tonnes of sugar on the world market for refining at our La Baraque refinery. This boosted turnover for the sugar segment and also ensured uninterrupted refining operations despite the drop in local sugar production. On the energy side, turnover increased by Rs 40.7 million mainly caused by the rise in the price of coal. The hospitality segment results improved due to higher occupancy rate posted in the financial year compared to 2015.

Turnover by cluster



Operating profit/(Loss):

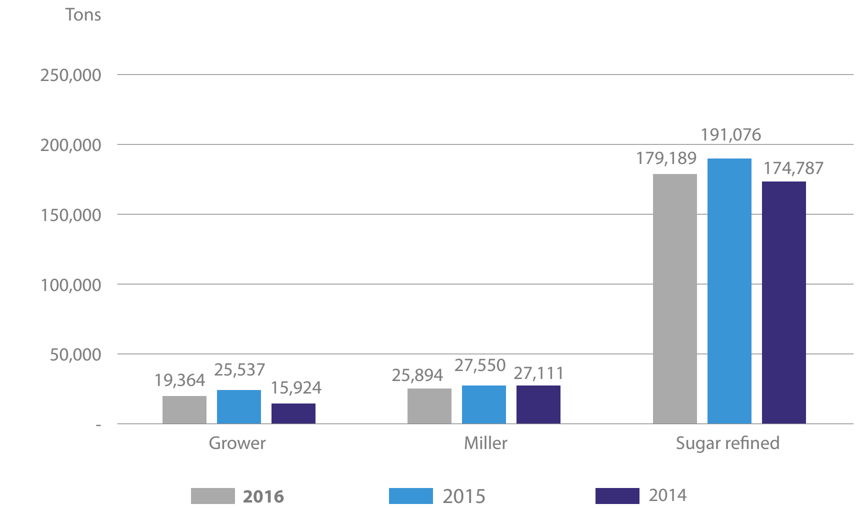
Operating profit by cluster



Sugar Cluster:

Sugar cluster operating losses reached Rs 256.3 million in 2016 mainly due to the fall in sugar production which affected both the milling and growing operations. Last year's results included canes which were milled in the early months of 2015 due to the strike that affected the industry in 2014. Furthermore, the refinery operations were affected by the new packaging processes which slowed the whole chain. This negatively impacted our output at the plant as we had to adapt our current process to the new industry demand towards the end consumer. On another note, cane supply fell due to cane fields' abandonment by planters. Management is however working closely with stakeholders to help the small planters of the factory area and motivates them towards sugar cane fields.

Sugar accrued & refined

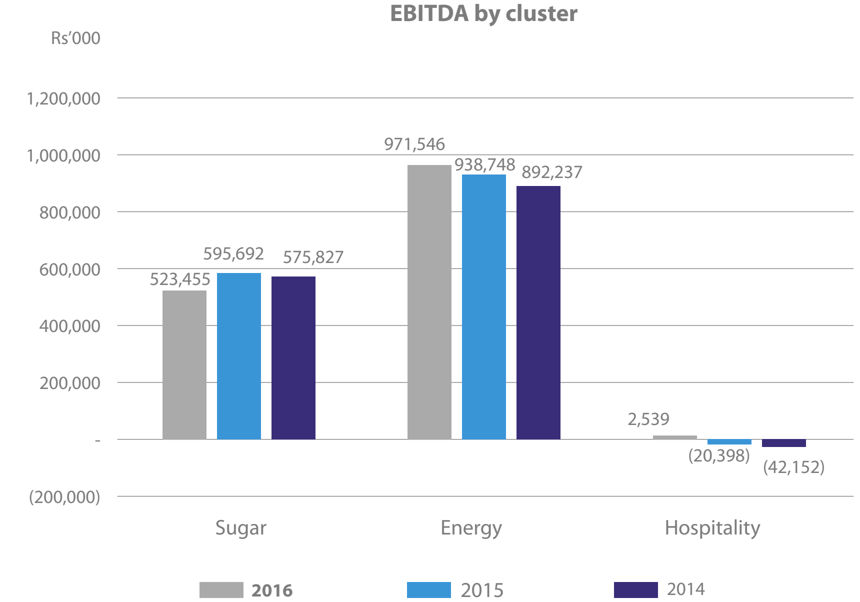


Energy segment:

Operating Profit	2016	2015	2014
Power plants	**554.2**	545.7	576.7
Ethanol plant	**79.0**	100.8	21.4
Total	**633.2**	646.5	598.1

Results from the energy cluster fell slightly to Rs 633.2 million in 2016 mainly due to lower profits recorded on our distillery operations. Ethanol prices were lower on the world market compared to 2015 mainly due to excess supply. Profits from our power plants were higher than last year mainly due to the rise in capacity fee charges and lower repairs and maintenance cost for the year.

EBITDA by cluster



Share of profit/(loss) of associates:

	2016	2015	2014
	Rs million	Rs million	Rs million
Real Good Food plc	**11.9**	176.8	(58.5)
KISCOL	**(9.1)**	(11.5)	(6.1)
Others	**1.9**	8.0	1.4
Total	**4.7**	173.3	(63.2)

Our associate, Real Good Food plc posted better results in 2015 compared to 2016 mainly due to the profit made from the disposal of its Napier Brown Division. Our KISCOL operations in Kenya are still in their first phases of operation and Rs 9.1 million loss were recorded as our share for 2016.

Exceptional items:

	2016	2015	2014
	Rs million	Rs million	Rs million
Profit from disposal of land	**248.5**	32.7	406.5
Gain on bargain purchase	**-**	131.9	39.4
Land conversion rights	**239.2**	-	-
Profit on sale of investments	**20.5**	-	13.5
Total	**508.3**	164.6	459.4

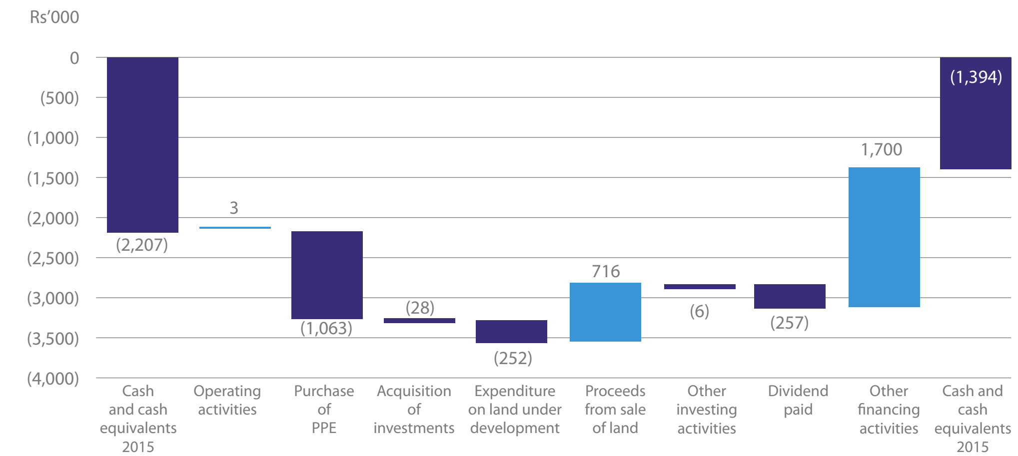
Exceptional items consist mainly of land disposal profit and land conversion rights now recorded in the financial statements. Profit from land disposal includes mainly profit realised from our Highland Rose morcellement which was successfully completed during the year. Land conversion rights resulting from the Sugar Reform previously unrecognised in the financials have now been accounted for.

Earnings

Group earnings per share were down to Rs 2.36 (2015: Rs 3.45) for the year, mainly due to the fall in our sugar segment results as reported above.

Statement of cash flows

Cash flow improved in 2016 from Rs 2.2 Billion to Rs 1.4 Billion mainly due to receipts recorded from the sale of land and cash raised from financing activities.



Cash used in investing activities comprise mainly of Rs 1.1 Billion purchase of property plant and equipment which include Rs 786 million spent on the Carbon Burn-out project.

Cash increase from financing activities consists of long term and short term borrowings raised to finance the Carbon burn-out project at La Baraque. Both financings were closed during the year with local financial institutions and the European Investment Bank.

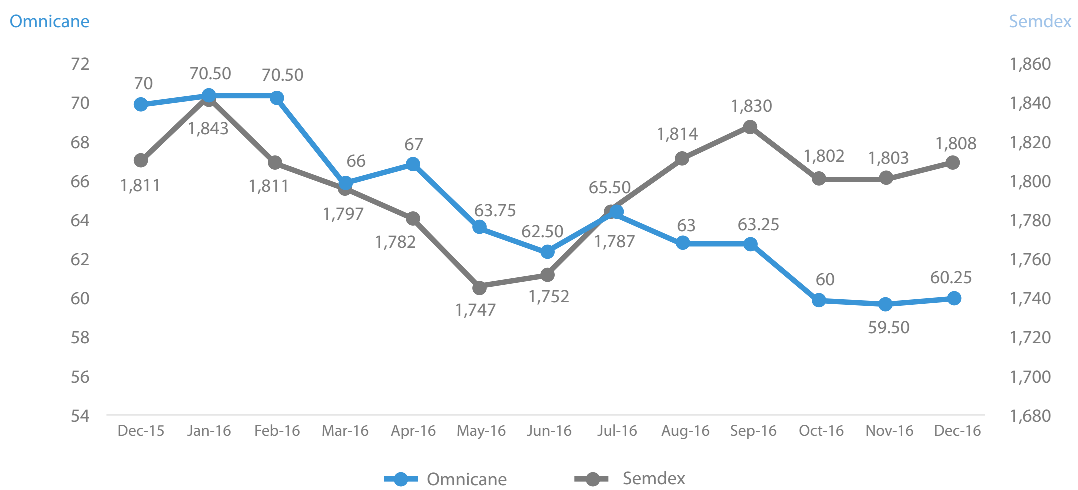
Shareholders dividend paid in March 2017 was reduced to Rs 2.00 per share due to the lower profits recorded during the year.

Total assets and share price

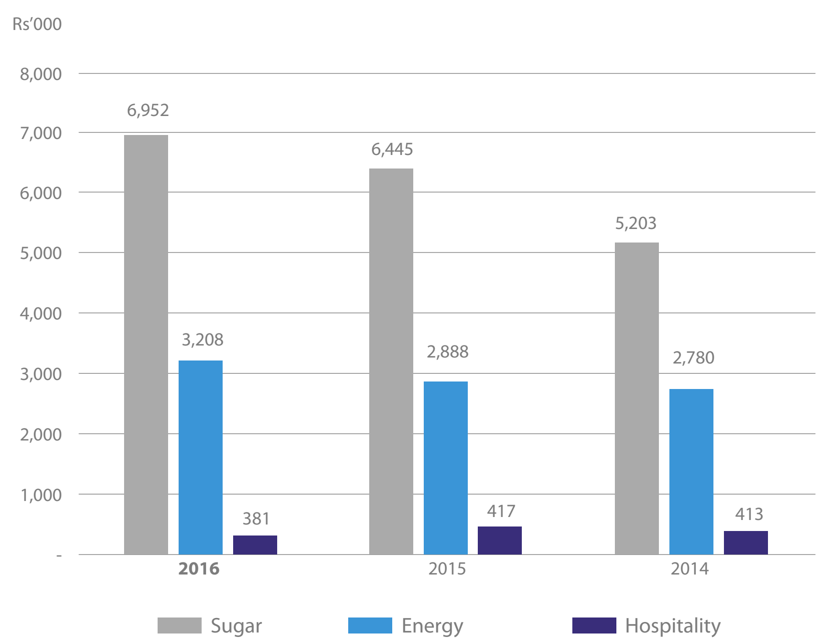
The Group's assets base increased to Rs 23.2 billion and this consists mainly of our property, plant and equipment of Rs 14.1 billion. The amount includes our industrial complex at La Baraque as well as our land asset base mostly located in the southern part of the island.

Our share price fell by 14% to Rs 60 compared to Rs 70 in 2015. The benchmark index was at an all year low in May 2016 to 1,747 points but recovered to 1,808 points in December. Our Share price did not follow the same trend and was traded at the Rs 60 spot from October 2016 to December 2016.

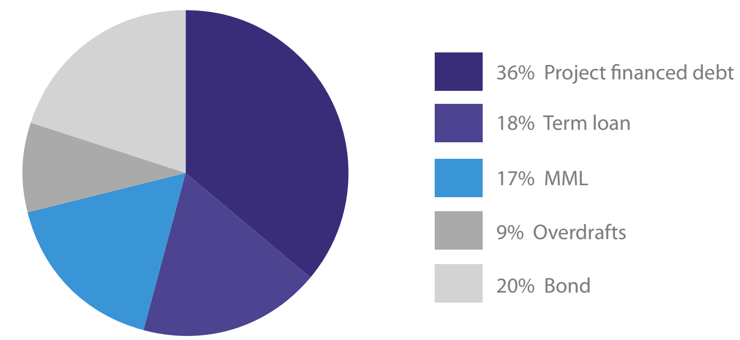
Omnicane Limited Share Price Performance



Net Debt



Net debt increased slightly in 2016 to Rs 10.5 billion compared to Rs 9.7 billion in 2015 mainly due to the new debt contracted on the Carbon Burn-out Project.



Our debt portfolio include project financed debts, bonds, term loans and overdrafts. Direct access to the debt market has enabled the Group to lower its finance charges.

Indirect Economic Impacts (G4-DMA, G4-EC8)
Indirect economic impacts, while harder to quantify, include jobs indirectly by our operations, infrastructural development in the region and community development programs. During the year under review, there have been no significant indirect economic impacts of our activities and operations.