

GROUP FINANCE DIRECTOR'S REVIEW

ACCOUNTING POLICIES

With effect from 1st January 2018, Singapore Financial Reporting Standards (International) ("SFRS(I)") and International Financial Reporting Standards ("IFRS") have fully converged. The Company and Group accounts have been prepared under the dual compliance framework of both SFRS(I) and IFRS. The Directors continue to review the appropriateness of the accounting policies adopted by the Group, having regard to developments in SFRS(I) and IFRS. In 2018, the following new standards which became effective from 1st January 2018 were adopted: SFRS(I)/IFRS 9 Financial Instruments and SFRS(I)/IFRS 15 Revenue from Contracts with Customers. The comparative financial statements have been restated in accordance with the requirements under IFRS and SFRS(I). In addition, additional disclosures have been made in the financial statements in respect of revenue from contracts with customers and impairment of debtors.

RESULTS

In 2018, the Group's revenue grew by 10% to US\$19 billion, with growth in most of Astra's businesses, principally heavy equipment, mining, construction and energy. Gross revenue, including 100% of revenue from associates and joint ventures, which is a measure of the full extent of the Group's operations, increased by 7% to US\$40.2 billion. The increase was largely due to the Group's associates and joint ventures in Astra and Truong Hai Automotive ("THACO").

Underlying operating profit from the Group's parent company and subsidiaries of US\$2,160 million was US\$422 million or 24% higher than the previous year. Astra's underlying operating profit increased by US\$426 million or 26% to US\$2,087 million, which was largely due to its heavy equipment, mining, construction and energy businesses which benefited from higher coal prices. The Group's Direct Motor Interests saw a US\$12 million or 17% increase in contribution due to improved margins in Cycle & Carriage Singapore, while Cycle & Carriage Bintang contributed a profit, compared with a loss in the prior year, as sales benefited from the zero rate of Goods & Services Tax ("GST") from June to August in 2018. Dividends from Vinamilk increased by US\$23 million as dividends for a full year were received. Corporate costs, excluding net financing charges, were US\$39 million higher due to exchange losses arising from the translation of US dollar net borrowings.

Net financing charges, excluding those relating to the Group's consumer finance and leasing activities, increased by US\$114 million to US\$161 million, mainly due to the higher levels of average net debt at the Group's parent company and Astra parent company. Interest cover (calculated as the sum of underlying operating profit and share of results of associates and joint ventures divided by net financing charges) excluding the financial services companies decreased to 16 times (2017: 37 times) due to the increase in debt.

	2018			Restated 2017		
	Underlying profit US\$m	Non-trading items US\$m	Total US\$m	Underlying profit US\$m	Non-trading items US\$m	Total US\$m
Revenue	18,992	–	18,992	17,337	–	17,337
Operating profit	2,160	(440)	1,720	1,738	156	1,894
Net financing charges	(161)	–	(161)	(47)	–	(47)
Share of results of associates and joint ventures	615	1	616	533	16	549
Profit before tax	2,614	(439)	2,175	2,224	172	2,396
Tax	(599)	4	(595)	(487)	–	(487)
Profit after tax	2,015	(435)	1,580	1,737	172	1,909
Attributable to:						
Shareholders of the Company	858	(438)	420	770	169	939
Non-controlling interests	1,157	3	1,160	967	3	970
	2,015	(435)	1,580	1,737	172	1,909

The Group's share of underlying results of associates and joint ventures increased by US\$82 million or 15% to US\$615 million. Contributions from Astra's associates and joint ventures increased by US\$49 million with improvements in all businesses, principally those in financial services. The contribution from Direct Motor Interests associates and joint ventures increased by US\$17 million with improved performance at THACO and Tunas Ridean arising from higher sales, partially offset by losses in the Group's Myanmar joint venture. In Other Strategic Interests, contributions from Siam City Cement ("SCCC") and Refrigeration Electrical Engineering Corporation ("REE Corp") increased by US\$16 million with SCCC benefiting from an improved domestic performance and lower one-off expenses while REE Corp's strong performance resulted from its power and water investments.

The underlying effective tax rate of the Group in 2018, excluding associates and joint ventures, was 30%. This compared with 29% in 2017.

The Group's underlying profit attributable to shareholders for the year was 12% up at US\$858 million.

NON-TRADING ITEMS

In 2018, the Group had net non-trading losses of US\$435 million, principally due to unrealised fair value losses related to non-current investments. These resulted from the adoption of IFRS 9 Financial Instruments which require the unrealised gains and losses arising from the revaluation of equity investments at the end of each financial period to be included in the profit and loss account. In 2017, the Group had a net non-trading gain of US\$172 million largely due to the unrealised fair value gains related to non-current investments.

DIVIDENDS

The Board is recommending a final one-tier tax-exempt dividend of US\$69 per share (2017: US\$68 per share), which together with the interim dividend will give a total dividend of US\$87 per share for the year (2017: US\$86 per share). Shareholders will have the option to receive the dividend in Singapore dollars and in the absence of any election, the dividend will be paid in US dollars.

CASH FLOW

Cash inflow from the Group's operating activities was US\$1,995 million, US\$340 million higher than the previous year, mainly due to higher inflows from Astra's financial services and heavy equipment, mining, construction and energy businesses.

The net cash outflow from investing activities was US\$2,284 million, slightly lower than the previous year. Capital expenditure and investments before disposals for the year amounted to US\$3,105 million (2017: US\$3,351 million) which mainly comprised:

- US\$72 million for the purchase of intangible assets, which included US\$43 million for the acquisition costs of contracts in Astra's general insurance business;
- US\$937 million of property, plant and equipment mainly by Astra comprising US\$722 million of heavy equipment and machinery for its heavy equipment and mining, construction and energy businesses, US\$110 million of equipment and network development for its automotive businesses and US\$65 million for its agribusiness;
- US\$27 million for additions to investment properties in Astra and US\$45 million for additions to bearer plants in Astra;
- US\$1.2 billion mainly for Astra's acquisition of a 95% interest in Agincourt Resources, which operates the Martabe gold mine in Sumatra;
- US\$134 million for acquisitions and capital injection into various associates and joint ventures and investments in toll roads;
- US\$692 million for investments, increasing its interest in Vinamilk and taking interests in GOJEK and Toyota Motor Corporation together with investments by Astra's general insurance business.

The contribution to the Group's cashflow from disposals for the year amounted to US\$264 million which arose mainly from the sale of other investments by Astra's general insurance business.

Cash outflow from financing activities was US\$349 million, compared to a cash inflow of US\$823 million in the previous year, mainly due to a lower net drawdown of borrowings and higher dividends paid.

TREASURY POLICY

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit foreign exchange and interest rate risks and to provide a degree of certainty about costs. The investment of the Group's surplus cash resources is managed so as to minimise risk while seeking to enhance yield. Appropriate credit guidelines are in place to manage counterparty risk.

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When economically sensible to do so, borrowings are taken in local currency to hedge foreign exchange exposures on investments. A portion of borrowings is denominated in fixed rates. Adequate headroom in committed facilities is maintained to facilitate the Group's capacity to pursue new investment opportunities and to provide some protection against market uncertainties. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt from banks and capital markets, both short and long term, to give flexibility to develop the business.

The Group's treasury operations are managed as cost centres and are not permitted to undertake speculative transactions unrelated to underlying financial exposures.

The Group's financial risk factors are set out on page 87 to 93.

FUNDING

The Group is well financed with strong liquidity. The Group's consolidated net debt, excluding borrowings within Astra's financial services subsidiaries, was US\$2.2 billion at the end of 2018, representing gearing of 16%, compared to net debt of US\$819 million at the end of 2017, when gearing was 6%. The Group parent company's net debt was US\$1.3 billion compared to net debt of US\$1.2 billion at the end of 2017. Net debt within Astra's financial services operations decreased slightly to US\$3.3 billion at the end of 2018.

At the year-end, the Group had undrawn committed facilities of some US\$3.8 billion. In addition, the Group had available liquid funds of US\$1.9 billion.

80% of the Group's borrowings were non-US dollar denominated and directly related to the Group's businesses in the countries of the currencies concerned.

At the year-end, approximately 71% of the Group's borrowings, exclusive of Astra's financial services companies, were at floating rates and the remaining 29% were at fixed rates including those hedges with derivative instruments with major creditworthy financial institutions. For Astra's financial services companies, 93% of their borrowings were at fixed rates.

BALANCE SHEET

Shareholders' funds of US\$6.1 billion at the end of 2018 were 4% lower than 2017 due to translation losses arising from the weaker Rupiah. Intangible assets increased by US\$551 million to US\$1.6 billion, due mainly to an increase in mining exploration costs arising from the consolidation of a new subsidiary, Agincourt Resources. Property, plant and equipment increased by US\$1.1 billion to US\$4.5 billion, largely due to the purchase of heavy equipment and machinery. Non-current investments decreased by US\$62 million to US\$1.9 billion mainly due to fair value losses arising from the revaluation of equity investments. Trade debtors increased mainly due to higher receivables from the heavy equipment business. Stocks increased by US\$316 million to US\$2.0 billion due to purchases of heavy equipment and higher inventory days for other stocks. The increase in trade creditors was mainly due to higher purchases of heavy equipment stocks.

RISK MANAGEMENT REVIEW

A review of the major risks facing the Group is set out on page 44 to 45.

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