Financial Review

Accounting Policies

The Directors continue to review the appropriateness of the accounting policies adopted by the Group having regard to developments in International Financial Reporting Standards ("IFRS"). In 2016, a number of amendments to the Standards became effective and the Group adopted those which are relevant to its operations. As mentioned in Note 2.1 of the financial statements, the only amendments adopted that impact the consolidated profit and loss account and balance sheet are the amendments to IAS 16 and IAS 41 on Agriculture: Bearer Plants. The adoption of these amendments does not have a material effect on the financial statements, but the comparative financial statements have been restated in accordance with the requirements under IFRS.

Results

The Group's revenue at US$15.8 billion was similar to the previous year. The Group's gross revenue, including 100% of revenue from its associates and joint ventures, which is a measure of the full extent of the Group's operations, increased by 15% to US$34.8 billion. Astra's gross revenue, including 100% of revenue from its associates and joint ventures, rose 13% to US$28.0 billion with increases in all businesses, except heavy equipment which was impacted by low coal prices for most of the year. Growth was also seen in the Company's direct associates and joint ventures, Truong Hai Auto Corporation ("Thaco"), PT Tunas Ridean Tbk ("Tunas Ridean"), Siam City Cement Public Company Limited ("SCCC") and Refrigeration Electrical Engineering Corporation ("REE").

Operating profit from the Group's subsidiaries rose by 28% to US$1,500 million. Excluding non-trading items, which amounted to a net gain of US$25 million (2015: US$34 million), the Group's underlying operating profit was 29% higher at US$1,475 million. Astra's underlying operating profit of US$1,416 million was 31% up on 2015's results which included an impairment charge of US$349 million in relation to its coal mining properties, with all its major businesses recording improved results. Excluding the effect of this impairment charge, Astra's 2016 operating profit would have been marginally lower compared to 2015. The Group's Direct Motor Interests saw an increase in underlying operating profit as vehicle sales in Singapore grew, following the increase in the number of certificates of entitlement, partly offset by lower profits in Malaysia due to lower margins following changes in the sales mix.

The non-trading items in 2016 referred to above of US$25 million comprised mainly the fair value gain on agricultural produce and revaluation gains on investment properties, partly offset by a loss on dilution of interest in an associate.

Net financing charges, excluding those relating to the Group's consumer finance and leasing activities, increased by US$18 million to US$39 million mainly due to the higher level of average net debt in Astra. Interest cover excluding the financial services companies calculated as the sum of underlying operating profit and share of results of associates and joint ventures divided by net financing charge remained strong at 29 times (2015: 30 times).

The Group's share of associates' and joint ventures' results after tax at US$380 million, was 19% down on the previous year mainly due to the loss recorded by Permata Bank following a significant increase in loan-loss provisions in its commercial loan book. 2016's results included a non-trading gain of US$34 million largely due to the sale of land, while 2015's results included a non-trading gain of US$45 million, mainly due to the reversal of an impairment charge in respect of the Group's investment in Thaco. Excluding the loss in Permata Bank and the non-trading gains, the Group's share of associates' and joint ventures' results after tax would have risen by 34% to US$569 million. Astra's automotive and its other financial services associates and joint ventures performed well, while higher contributions were seen in Thaco, Tunas Ridean, SCCC and REE.

The effective tax rate of the Group, excluding associates and joint ventures in 2016 was 23% compared to 29% in the previous year. Excluding non-trading items, the Group's effective tax rate was 23%, compared to 30% in 2015. The lower effective tax rate in 2016 resulted from the Group's Indonesian subsidiaries having availed themselves of a new tax incentive on fixed asset revaluation, under which the increase in value of fixed assets from the revaluation was subject to a reduced tax rate.

The profit attributable to shareholders for the year at US$702 million was 2% up on the previous year. Excluding non-trading items, the underlying profit attributable to shareholders was 7% higher at US$679 million with Astra contributing US$500 million, 6% up on the previous year and the Group's Direct Motor Interests and its Other Interests contributing US$167 million and US$33 million, 18% and 11%, respectively higher than 2015. Central overheads at US$21 million were US$10 million higher as 2015 had the benefit of a foreign exchange gain arising from loan repayments.

	2016			2015		
	Underlying profit US$m	Non-trading items US$m	Total US$m	Underlying profit US$m	Non-trading items US$m	Total US$m
Operating profit	1,475	25	1,500	1,141	34	1,175
Net financing charges	(39)	-	(39)	(21)	-	(21)
Share of results of associates and joint ventures	346	34	380	426	45	471
Profit before tax	1,782	59	1,841	1,546	79	1,625
Tax	(337)	(6)	(343)	(338)	-	(338)
Profit after tax	1,445	53	1,498	1,208	79	1,287
Attributable to:						
Shareholders of the Company	679	23	702	632	59	691
Non-controlling interests	766	30	796	576	20	596
	1,445	53	1,498	1,208	79	1,287

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Dividends

The Board is recommending a final one-tier tax-exempt dividend of US¢56 per share (2015: US¢51 per share), which together with the interim dividend will give a total dividend of US¢74 per share (2015: US¢69 per share) for the year. Shareholders will have the option to receive the dividend in Singapore dollar and in the absence of any election, the dividend will be paid in US dollar.

Cash Flow

Cash inflow from the Group's operating activities was US$1,400 million, US$448 million lower than the previous year, due to an increase in working capital in Astra mainly in its financial services and heavy equipment and mining businesses.

The cash outflow from investing activities was US$827 million, US$304 million lower than the previous year, as 2015 included the acquisition of the 24.9% interest in SCCC for US$619 million. Cash expenditure and investments mainly comprised:

- US$75 million for the purchase of intangible assets which included US$60 million for the acquisition costs of contracts in Astra's general insurance business and US$30 million for the purchase of leasehold land use rights for use by Astra's businesses;
- US$468 million of property, plant and equipment mainly by Astra comprising US$175 million of heavy equipment and machinery for its heavy equipment and mining business, US$132 million of equipment and network development for its automotive business, US$113 million to develop the agribusiness;
- US$80 million for the development of Menara Astra and US$56 million for additions to bearer plants in Astra;
- US$14 million mainly for investments in Astra's mining subsidiaries;
- US$381 million for investments in associates and joint ventures which include US$240 million for Astra's subscription to Permata Bank's rights issue and capital advance, Astra's capital injection into various associates and joint ventures of US$130 million, including Astra Aviva Life and a new investment in 50%-held Astra Modern Land. The Company also invested some US$10 million in its Myanmar business, Tunas Ridean and REE; and
- US$86 million net outflow from investments by Astra's general insurance.

Disposals which added US$31 million to the cash inflow from investing activities mainly arose from the disposal of heavy equipment.

The cash outflow from financing activities was US$290 million, US$103 million higher than the previous year as 2015 had surplus proceeds after debt repayment from the Company's rights issue which raised US$748 million. In 2016, the net cash inflow from borrowings and the receipt of US$110 million from non-controlling interests for the investment in Astra Land Indonesia and the rights issues in Astra Agro Lestari and Acset, were offset by lower dividends paid to non-controlling interests and dividends paid by the Company.

Funding

The Group is well financed with strong liquidity. The Group's consolidated net cash, excluding borrowings within Astra's financial services subsidiaries, increased from US$255 million in 2015 to US$709 million in 2016, primarily driven by strong operating cash flows from Astra. Net debt within the Astra's financial services operations increased to US$3.6 billion as a result of higher lending volumes. The Company ended the year with net cash of US$154 million, compared to US$136 million at the end of 2015.

At the year-end, the Group had undrawn committed facilities of some US$1.5 billion. In addition, the Group had available liquid funds of US$2.5 billion.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, both short and long term, to give flexibility to develop the business.

Balance Sheet

The Group continues to have a strong balance sheet. Shareholders' funds increased by 11% to US$5.8 billion. Property, plant and equipment increased by US$100 million to US$3.0 billion, mainly due to the purchase of heavy equipment and machinery. Interests in associates and joint ventures grew by US$477 million to US$3.7 billion, from the Group's share of profit, participation in Permata Bank's rights issue and the purchase of new and additional interests. Financing debtors increased by US$454 million to US$4.8 billion due to increase in volumes financed. Stocks increased marginally, as a decrease in inventory days for heavy equipment, was offset by higher inventory days for other stocks. Trade creditors increased mainly due to higher purchases of heavy equipment stocks.

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.

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 67.

Risk Management Review

A review of the major risks facing the Group is set out on page 32.

Adrian Teng
Group Finance Director
27th February 2017