FINANCIAL REVIEW

Kia Forte K3
Singapore

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. In 2013, a number of new or amended standards became effective and the Group adopted those which are relevant to the Group's operations. As mentioned in Note 2 to the financial statements, the only standard adopted that impacts the consolidated profit and loss account and balance sheet is IAS 19 (amended 2011) "Employee Benefits". The adoption of this standard does not have a material effect on the financial statements, but the comparative financial statements have been restated. In addition, pursuant to the new or amended standards, additional disclosures have been made in the financial statements in respect of pension plans, fair value measurements, interests in subsidiaries that have material non-controlling interests, and interests in material associates and joint ventures.

Results

The Group's revenue for the year was down 8% to US$19.8 billion. Revenue from Astra fell by 8% to US$18.4 billion as increases in all segments except heavy equipment were offset by the impact on translation of the rupiah, which was on average 11% lower against the US dollar during 2013. Revenue from the Group's other motor interests fell 10% to US$1.4 billion due to challenging trading conditions in Singapore and Malaysia. Gross revenue, including 100% of revenue from associates and joint ventures, which is a better measure of the extent of the Group's operations, declined by 3% to US$33.0 billion.

Operating profit at US$2,063 million was US$364 million or 15% lower than the previous year. Excluding non-trading items, which amounted to a net gain of US$60 million (2012: net gain of US$8 million), underlying operating profit was US$2,003 million, 17% lower. Astra's financial services and mining contracting businesses' strong results were offset by a decline in earnings from its heavy equipment and palm oil businesses, alongside the impact on translation of the weaker rupiah. Astra's automotive segment delivered slightly improved results, as a decline in the contribution from its components business was offset by improved motorcycle results. The Group's other motor interests in Singapore experienced a marginal decline in earnings despite government measures to curb demand, while in Malaysia, intense competition in the premium car segment led to reduced earnings.

The non-trading items referred to above included an aggregate gain of US$54 million arising from Astra's sale of an interest in a subsidiary to an affiliate, Hongkong Land, and the disposal of a non-core subsidiary, a US$19 million revaluation gain from investment properties and a fair value loss of US$15 million on oil palm plantations.

Net financing charges, excluding interest income/expense relating to consumer finance and leasing activities, decreased by US$11 million to US$28 million as a result of significantly lower net debt in most of Astra's business segments. Interest cover excluding financial services companies remained strong at 48 times, calculated as the sum of underlying operating profit and share of associates' and joint ventures' results after tax, divided by net financing charges.

The Group's share of associates' and joint ventures' results after tax at US$590 million was 2% higher than the previous year after including a non-trading loss of US$23 million attributable largely to the write-down of

Astra's interest in a joint venture. This compares to the non-trading loss in the previous year of US$45 million, which was due to an impairment of the Group's investment in Vietnam. Excluding these non-trading items, the Group's share of associates' and joint ventures' results after tax was US$613 million, 1% down on the previous year. An increase in Astra's automotive and financial services associates and joint ventures were offset by the impact on translation of the weaker rupiah. The Group's Vietnam associate, Truong Hai Auto Corporation, recorded a significant increase in earnings, while the Group's Indonesian associate, Tunas Ridean, experienced a decline.

The effective tax rate of the Group was 26% compared to 27% in the previous year. Excluding non-trading items, the effective tax rate would have been 27% compared to 26% in 2012.

The Group's profit after tax for the year was US$2,089 million, 10% lower than the previous year. After excluding profit attributable to non-controlling shareholders, the Group's profit after tax attributable to shareholders fell 7% to US$915 million. Excluding non-trading items, underlying profit attributable to shareholders was 12% lower at US$894 million. Had Astra's earnings been translated using the same exchange rate as applied in 2012, Astra's contribution to the Group's underlying profit attributable to shareholders would have been US$108 million higher.

Dividends

The Board is recommending a final one-tier tax-exempt dividend of US¢90 per share (2012: US¢105 per share), payable on 26th June 2014 to shareholders of the Company as at 5.00pm on 19th May 2014. This, together with the interim dividend paid in October 2013, will produce a total dividend of US¢108 per share (2012: US¢123 per share). This represents a dividend payout equivalent to 43% of underlying earnings per share, in line with the previous 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$1,931 million, US$1,081 million higher than the previous year, mainly due to a reduction in working capital in Astra's heavy equipment business.

The cash outflow from investing activities was US$838 million, US$80 million lower than the previous year. Cash outflow from investing activities comprised mainly Astra's capital expenditure in the automotive, heavy equipment and mining, and agribusiness segments, acquisitions of new automotive component and infrastructure businesses, capital injections in associates and joint ventures, and the net purchase of other investments.

The cash outflow from financing activities was US$499 million, US$329 million higher than the previous year. This was due mainly to a higher repayment of loans, partly offset by the proceeds of US$261 million from the sell-down by Astra of its interest in Astra Otoparts from 96% to 80% and lower dividends paid to non-controlling interests.

At the year-end, the Group had undrawn committed facilities of some US$2.7 billion. In addition, the Group had available liquid funds of US$1.6 billion. The Group's net debt excluding borrowings within Astra's financial services subsidiaries was US$303 million, compared to US$867 million at the end of the previous year, mainly due to the aforementioned proceeds from Astra's sell-down of a partial interest in Astra Otoparts and the reduction in working capital. Net debt within the Group's financial services operations was US$3.5 billion, down from US$3.8 billion at the end of 2012, as the impact of a weaker rupiah on translation more than offset the increase in volumes financed. The Company ended the year with net debt of US$20 million.

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

Shareholders' funds decreased by 8% to US$4.3 billion, principally due to the impact on translation of the rupiah, which at the end of 2013 had depreciated by 21% against the US dollar from the end of 2012. Property, plant and equipment declined by US$560 million to US$3.7 billion, with the translation impact of the weaker rupiah more than offsetting purchases of heavy equipment and machinery. Interests in associates and joint ventures declined by US$160 million to US$2.4 billion, as the Group's share of profit and purchase of additional interests were more than offset by the weaker rupiah. Financing debtors declined by US$543 million to US$4.5 billion, as higher volumes financed were more than offset by the weaker rupiah. Stocks at US$1.3 billion were US$394 million lower due to a decrease in inventory of heavy equipment and the impact of the weaker rupiah.

Treasury Policy

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit 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.

Risk Management Review

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

S C Chiew

Group Finance Director

27th February 2014