

SIME DARBY BERHAD
(Company No: 752404-U)

Unaudited Condensed Consolidated Statement of Comprehensive Income
Amounts in RM million unless otherwise stated

	Quarter ended 31 December		% +/(-)	Half-year ended 31 December		% +/(-)
	2016	2015 Restated		2016	2015 Restated	
Profit for the period	704	336	109.5	1,202	691	74.0
Other comprehensive income/(loss)						
Items that will be reclassified subsequently to profit or loss:						
Currency translation differences:						
- subsidiaries	665	(119)		1,137	964	
Net changes in fair value of:						
- available-for-sale investments	(2)	—		(12)	14	
- cash flow hedges	78	25		58	40	
Share of other comprehensive income/ (loss) of:						
- joint ventures	94	(52)		79	91	
- associates	5	—		8	33	
Tax (expense)/credit	(27)	2		(21)	(23)	
	813	(144)		1,249	1,119	
Reclassified changes in fair value of cash flow hedges to:						
- profit or loss	(35)	20		(5)	(76)	
- inventories	(9)	23		(5)	(8)	
Reclassified to profit or loss currency translation differences on :						
- repayment of net investment	3	(3)		17	(53)	
- disposal of a subsidiary	—	—		(7)	2	
Tax credit/(expense)	13	(15)		4	25	
	785	(119)		1,253	1,009	
Items that will not be reclassified subsequently to profit or loss:						
Share of other comprehensive income of a joint venture	—	2		—	2	
Total comprehensive income for the period	1,489	219	579.9	2,455	1,702	44.2
Attributable to owners of:						
- the Company	1,417	148	857.4	2,330	1,562	49.2
- perpetual sukuk	32	—		63	—	
- non-controlling interests	40	71	(43.7)	62	140	(55.7)
Total comprehensive income for the period	1,489	219	579.9	2,455	1,702	44.2

The unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2016.

SIME DARBY BERHAD
(Company No: 752404-U)

Unaudited Condensed Consolidated Statement of Financial Position
Amounts in RM million unless otherwise stated

	Note	Unaudited As at 31 December 2016	Audited As at 30 June 2016
<u>Non-current assets</u>			
Property, plant and equipment		25,166	24,456
Prepaid lease rentals		1,008	947
Investment properties		341	395
Biological assets		46	45
Land held for property development		676	695
Joint ventures		3,425	2,889
Associates		1,326	1,324
Investments		164	158
Intangible assets		4,830	4,337
Deferred tax assets		1,721	1,598
Tax recoverable		539	545
Derivatives	B10(a)	118	139
Receivables		588	549
Amounts due from customers on construction contracts		1,519	1,440
		41,467	39,517
<u>Current assets</u>			
Inventories		9,721	9,397
Biological assets		23	17
Property development costs		3,683	3,180
Receivables		7,781	6,523
Accrued billings and others		1,470	1,383
Tax recoverable		190	239
Derivatives	B10(a)	157	125
Bank balances, deposits and cash		3,813	3,521
		26,838	24,385
Non-current assets held for sale		767	307
Total assets	A7	69,072	64,209
<u>Equity</u>			
Share capital		3,400	3,164
Reserves		33,578	29,349
Attributable to owners of the Company		36,978	32,513
Perpetual sukuk		2,229	2,230
Non-controlling interests		1,007	964
Total equity		40,214	35,707
<u>Non-current liabilities</u>			
Borrowings	B9	11,999	11,414
Finance lease obligation		100	127
Provisions		304	267
Retirement benefits		246	216
Deferred income		433	421
Deferred tax liabilities		2,939	2,658
Derivatives	B10(a)	1	29
		16,022	15,132
<u>Current liabilities</u>			
Payables		8,644	8,018
Progress billings and others		337	207
Borrowings	B9	3,168	4,419
Finance lease obligation		12	8
Provisions		140	204
Deferred income		138	211
Tax payable		266	245
Derivatives	B10(a)	131	58
		12,836	13,370
Total liabilities		28,858	28,502
Total equity and liabilities		69,072	64,209

SIME DARBY BERHAD
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Unaudited Condensed Consolidated Statement of Financial Position (continued)
Amounts in RM million unless otherwise stated

	Unaudited As at 31 December 2016	Audited As at 30 June 2016
Net assets per share attributable to owners of the Company (RM)	<u>5.44</u>	<u>5.14</u>

Note:

1. Bank balances, deposits and cash

Cash held under Housing Development Accounts	623	610
Bank balances, deposits and cash	<u>3,190</u>	<u>2,911</u>
	<u>3,813</u>	<u>3,521</u>

2. Non-current assets held for sale

Non-current assets		
Property, plant and equipment	759	7
Investment property	–	13
Associate	–	278
Joint venture	8	–
Investment	–	9
	<u>767</u>	<u>307</u>

Property, plant and equipment held for sale includes industrial properties located in Queensland and the Northern Territory, Australia proposed to be sold to Saizen REIT. See Note B8(a)(ii).

The associate and investment classified under non-current assets held for sale as at 30 June 2016 were in relation to the proposed disposal of 125,978,324 ordinary stock units of RM1.00 each and 48,795,600 convertible warrants 2015/2019 in Eastern & Oriental Berhad. The disposals were completed on 29 September 2016.

The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2016.

SIME DARBY BERHAD
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Unaudited Condensed Consolidated Statement of Changes in Equity
Amounts in RM million unless otherwise stated

	Share capital	Share premium	Revaluation reserve	Capital reserve	Legal reserve	Hedging reserve	Available-for-sale reserve	Exchange reserve	Retained profits	Attributable to owners of the Company	Perpetual sukuk	Non-controlling interests	Total equity
Half-year ended 31 December 2016													
At 1 July 2016	3,164	2,602	67	6,826	70	(68)	54	927	18,871	32,513	2,230	964	35,707
Total comprehensive income/(loss) for the period	–	–	–	–	–	31	(17)	1,229	1,087	2,330	63	62	2,455
Transfer between reserves	–	–	–	(64)	1	–	–	–	63	–	–	–	–
Share placement	158	2,199	–	–	–	–	–	–	–	2,357	–	–	2,357
Issue of shares in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	7	7
Distribution paid	–	–	–	–	–	–	–	–	–	–	(64)	–	(64)
Put option revaluation	–	–	–	(3)	–	–	–	–	–	(3)	–	–	(3)
Dividends paid by way of:													
- issuance of shares pursuant to the Dividend Reinvestment Plan	78	1,110	–	–	–	–	–	–	(1,188)	–	–	–	–
- cash	–	–	–	–	–	–	–	–	(207)	(207)	–	(26)	(233)
Share issue expenses	–	(12)	–	–	–	–	–	–	–	(12)	–	–	(12)
At 31 December 2016	3,400	5,899	67	6,759	71	(37)	37	2,156	18,626	36,978	2,229	1,007	40,214

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Unaudited Condensed Consolidated Statement of Changes in Equity
Amounts in RM million unless otherwise stated

	Share capital	Share premium	Share grant reserve	Revaluation reserve	Capital reserve	Legal reserve	Hedging reserve	Available- for-sale reserve	Exchange reserve	Retained profits	Attributable to owners of the Company	Non- controlling interests	Total equity
Half-year ended 31 December 2015													
At 1 July 2015	3,106	1,795	37	67	6,882	68	(100)	48	634	18,031	30,568	1,003	31,571
Total comprehensive (loss)/income for the period	—	—	—	—	—	—	(40)	12	979	611	1,562	140	1,702
Transfer between reserves	—	—	—	—	(16)	1	—	—	—	15	—	—	—
Performance-based employee share scheme	—	—	(37)	—	—	—	—	—	—	—	(37)	—	(37)
Share of capital reserve of an associate	—	—	—	—	(1)	—	—	—	—	—	(1)	—	(1)
Acquisition of non-controlling interest	—	—	—	—	—	—	—	—	—	(2)	(2)	(1)	(3)
Dividends paid	—	—	—	—	—	—	—	—	—	—	—	(167)	(167)
Dividend payable	—	—	—	—	—	—	—	—	—	(1,180)	(1,180)	—	(1,180)
At 31 December 2015	3,106	1,795	—	67	6,865	69	(140)	60	1,613	17,475	30,910	975	31,885

Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2016.

SIME DARBY BERHAD
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Unaudited Condensed Consolidated Statement of Cash Flows
Amounts in RM million unless otherwise stated

		Half-year ended 31 December	
	Note	2016	2015 Restated
Profit after tax		1,202	691
Adjustments for:			
Gain on disposal of subsidiaries and an associate		(166)	(8)
Gain on disposal of properties		(42)	(11)
Share of results of joint ventures and associates		(102)	(36)
Finance income		(101)	(71)
Finance costs		151	294
Depreciation and amortisation		854	869
Amortisation of prepaid lease rentals		25	24
Tax expense		348	245
Other non-cash items		209	(44)
		2,378	1,953
Changes in working capital:			
Inventories and rental assets		157	217
Property development costs		(496)	(310)
Land held for property development		2	(12)
Trade and other receivables and prepayments		(707)	(569)
Trade and other payables and provisions		(169)	(75)
Cash generated from operations		1,165	1,204
Tax paid		(223)	(352)
Dividends received from associates and investments		7	11
Net cash from operating activities		949	863
Investing activities			
Finance income received		55	48
Purchase of property, plant and equipment		(1,019)	(1,279)
Purchase/subscription of shares in joint ventures and associates		(367)	(230)
Purchase of investment properties		–	(1)
Purchase of intangible assets		(79)	(109)
Purchase of investments		(23)	–
Payment for prepaid lease rental		(11)	(44)
Proceeds from sale of subsidiaries	A11.2	276	125
Proceeds from sale of a joint venture and an associate		308	141
Proceeds from sale of investments		15	–
Proceeds from sale of property, plant and equipment		62	47
Proceeds from sale of investment property		45	1
Others		49	8
Net cash used in investing activities		(689)	(1,293)

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Unaudited Condensed Consolidated Statement of Cash Flows (continued)
Amounts in RM million unless otherwise stated

	Half-year ended	
	31 December	
	2016	2015
		Restated
Financing activities		
Proceeds from issuance of shares	2,357	–
Proceeds from shares issued to an owner of non-controlling interest	7	–
Purchase of additional interest in subsidiaries	–	(3)
Share issuance expenses	(12)	–
Finance costs paid	(308)	(366)
Long-term borrowings raised	205	917
Repayments of long-term borrowings	(1,485)	(409)
Revolving credits, trade facilities and other short-term borrowings (net)	(560)	(435)
Distribution to perpetual sukuk holders	(64)	–
Dividends paid	(233)	(167)
Net cash used in financing activities	(93)	(463)
Net changes in cash and cash equivalents	167	(893)
Foreign exchange differences	144	212
Cash and cash equivalents at beginning of the period	3,496	4,155
Cash and cash equivalents at end of the period	3,807	3,474
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprised the following:		
Cash held under Housing Development Accounts	623	518
Bank balances, deposits and cash	3,190	3,004
Less:		
Bank overdrafts (Note B9)	(6)	(48)
	3,807	3,474

The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2016.

EXPLANATORY NOTES

This interim financial report is prepared in accordance with the requirements of paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and complies with the requirements of the Financial Reporting Standard (FRS) 134 – Interim Financial Reporting and other FRS issued by the Malaysian Accounting Standards Board (MASB). The interim financial report is unaudited and should be read in conjunction with the Group's audited annual financial statements for the financial year ended 30 June 2016.

A. EXPLANATORY NOTES PURSUANT TO FRS 134

A1. Basis of Preparation

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted for the audited annual financial statements for the financial year ended 30 June 2016 except as described below.

a) New accounting pronouncements under the Financial Reporting Standards (FRS) Framework

i) Accounting pronouncements adopted for this interim financial report are set out below:

- FRS 14 – Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to FRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to FRS 116 and FRS 138)
- Annual Improvements to FRSs 2012 – 2014 Cycle
- Equity Method in Separate Financial Statements (Amendments to FRS 127)
- Investment Entities : Applying the Consolidation Exception (Amendments to FRS 10, FRS 12 and FRS 128)
- Disclosure Initiative (Amendments to FRS 101)

The adoption of the new accounting standard and amendments to the standards do not have any significant impact to the Group.

ii) Accounting pronouncements that are not yet effective are set out below:

- FRS 9 – Financial Instruments
- Disclosure Initiative (Amendments to FRS 107)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to FRS 112)
- Classification and Measurement of Share-based Payment Transactions (Amendments to FRS 2)
- Applying FRS 9 – Financial Instruments with FRS 4 – Insurance Contracts (Amendments to FRS 4)
- Annual Improvements to FRSs 2014 – 2016 Cycle
- Transfers of Investment Property (Amendments to FRS 140)
- IC Interpretation 22 – Foreign Currency Translations and Advance Consideration

iii) Accounting pronouncements where the effective date has been deferred to a date to be determined by the Malaysian Accounting Standards Board (MASB) are set out below:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to FRS 10 and FRS 128)

b) Malaysian Financial Reporting Standards (MFRS) Framework

In November 2011, the MASB issued the MFRS Framework to replace the FRS Framework. MFRS Framework is a fully International Financial Reporting Standards (IFRS)-compliant framework which is applicable for all non-private entities for annual periods beginning on or after 1 January 2012, other than Transitioning Entities (TEs) which may defer adoption pending the amendments to MFRS 141 – Agriculture and the issuance of a new standard on revenue recognition which will subsume IC Interpretation 15 – Agreements for the Construction of Real Estate. TE are entities within the scope of MFRS 141 and IC Interpretation 15, including their parent, significant investor and venturer.

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Explanatory Notes on the Quarterly Report – 31 December 2016
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A1. Basis of Preparation (continued)

b) Malaysian Financial Reporting Standards (MFRS) Framework (continued)

Subsequent to the amendment to MFRS 141 and the issuance of MFRS 15 – Revenue from Contracts with Customers, on 28 October 2015, MASB announced that TEs shall apply the MFRS Framework with effect from annual period beginning on or after 1 January 2018.

The Group, being a TE, will continue to comply with FRS until the MFRS Framework is adopted, no later than from the financial period beginning on 1 July 2018.

The Group is in the process of assessing the impact of the new pronouncements that are yet to be adopted, including MFRS 141, MFRS 15 and MFRS 16 – Leases. MFRS 16 was issued by MASB on 15 April 2016 and is applicable to annual periods beginning on or after 1 January 2019.

A2. Seasonal or Cyclical Factors

The Group's operations are not materially affected by seasonal or cyclical factors except for the fresh fruit bunch production in the Plantation division which may be affected by the vagaries of weather and cropping patterns.

A3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no material unusual items affecting the Group's assets, liabilities, equity, net income or cash flows during the financial period under review.

A4. Material Changes in Estimates

There were no material changes in the estimates of amounts reported in the prior interim periods of the current financial year or the previous financial years that have a material effect on the results for the current quarter under review.

A5. Debt and Equity Securities

Save for the following, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period under review.

- a) On 13 October 2016, the Company issued 316,353,600 new ordinary shares of RM0.50 each at RM7.45 per share pursuant to a Placement exercise. The new shares ranked pari passu in all respects with the existing ordinary shares of the Company.
- b) On 15 December 2016, the Company issued 157,413,239 new ordinary shares of RM0.50 each at RM7.55 per share pursuant to the Dividend Reinvestment Plan (see Note A6). The new shares ranked pari passu in all respects with the existing ordinary shares of the Company.

With the issuance of the new shares, the Company's issued and paid-up capital has increased from 6,327,072,538 ordinary shares to 6,800,839,377 ordinary shares.

A6. Dividends Paid

The final single tier dividend of 21.0 sen per share for the financial year ended 30 June 2016 amounting to RM1,395 million and the renewal of the authority to allot and issue new ordinary shares of RM0.50 each in the Company (new Sime Darby shares) for the purpose of the implementation of the Dividend Reinvestment Plan were approved by the shareholders on 2 November 2016.

The final dividend was paid on 15 December 2016 and based on the election made by shareholders, it was paid by way of issuance of 157,413,239 new Sime Darby shares at the issue price of RM7.55 per share, amounting to RM1,188 million and the balance payable in cash amounting to RM207 million.

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Explanatory Notes on the Quarterly Report – 31 December 2016
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A7. Segment Information

With effect from 1 July 2016, the Group has reorganised its Energy & Utilities segment. The trading and engineering services have been merged into the Industrial division and the Group's port and water management operations in China have been renamed "Logistics". Following the reorganisation, the Group has five strategic business units which offer different products and services, and are managed separately. Each of the strategic business units are headed by a Managing Director and the President & Group Chief Executive reviews the internal management reports on a monthly basis and conducts performance dialogues with the business units on a regular basis.

	Plantation	Industrial	Motors	Property	Logistics	Others	Elimination/ Corporate expense	Total
Half-year ended 31 December 2016								
Segment revenue:								
External	6,701	4,518	10,188	855	145	27	4	22,438
Inter-segment	–	33	12	54	–	4	(103)	–
	6,701	4,551	10,200	909	145	31	(99)	22,438
Segment result:								
Operating profit	868	103	265	204	22	5	31	1,498
Share of results of joint ventures and associates	(27)	3	1	105	1	19	–	102
Profit before interest and tax	841	106	266	309	23	24	31	1,600
Half-year ended 31 December 2015								
Segment revenue:								
External	6,042	4,844	9,747	1,180	148	38	3	22,002
Inter-segment	–	38	14	88	–	5	(145)	–
	6,042	4,882	9,761	1,268	148	43	(142)	22,002
Segment result:								
Operating profit	436	136	226	176	53	11	85	1,123
Share of results of joint ventures and associates	25	(1)	5	11	2	(6)	–	36
Profit before interest and tax	461	135	231	187	55	5	85	1,159

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A7. Segment Information (continued)

	Plantation	Industrial	Motors	Property	Logistics	Others	Corporate	Total
As at 31 December 2016								
Segment assets:								
Operating assets	28,746	9,487	9,600	9,836	2,414	89	932	61,104
Joint ventures and associates	660	265	96	2,706	357	667	–	4,751
Non-current assets held for sale	12	755	–	–	–	–	–	767
	29,418	10,507	9,696	12,542	2,771	756	932	66,622
Tax assets								2,450
Total assets								69,072
As at 30 June 2016								
Segment assets:								
Operating assets	25,988	9,339	8,747	9,673	2,234	86	1,240	57,307
Joint ventures and associates	684	241	90	2,268	286	644	–	4,213
Non-current assets held for sale	4	3	13	287	–	–	–	307
	26,676	9,583	8,850	12,228	2,520	730	1,240	61,827
Tax assets								2,382
Total assets								64,209

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A8. Capital Commitments

Authorised capital expenditure not provided for in the interim financial report is as follows:

	As at 31 December 2016	As at 30 June 2016
Property, plant and equipment		
- contracted	657	504
- not contracted	<u>3,448</u>	<u>2,296</u>
	4,105	2,800
Other capital expenditure		
- contracted	104	86
- not contracted	<u>16</u>	<u>128</u>
	4,225	3,014

A9. Significant Related Party Transactions

Related party transactions conducted during the half-year ended 31 December are as follows:

	Half-year ended 31 December 2016	2015
a. Transactions with a joint venture		
Tolling fees and sales to Emery Oleochemicals (M) Sdn Bhd and its related companies	<u>16</u>	<u>19</u>
b. Transactions with an associate		
Sales of products and services to Tesco Stores (Malaysia) Sdn Bhd	<u>10</u>	<u>6</u>
c. Transactions between subsidiaries and their owners of non-controlling interests		
Turnkey works rendered by Brunfield Engineering Sdn Bhd to Sime Darby Brunfield Holding Sdn Bhd group, companies in which Tan Sri Dato' Ir Gan Tian Leong and Encik Mohamad Hassan Zakaria are substantial shareholders	164	179
Purchase of agricultural tractors, engines and parts by Sime Kubota Sdn Bhd from Kubota Corporation	10	15
Royalty payment to and procurement of cars and ancillary services by Inokom Corporation Sdn Bhd (ICSB) from Hyundai Motor Company and its related companies	2	13
Contract assembly service provided by ICSB to Berjaya Corporation Berhad group	26	15
Project management services rendered by Tunas Selatan Construction Sdn Bhd, the holding company of Tunas Selatan Pagoh Sdn Bhd to Sime Darby Property Selatan Sdn Bhd	3	4
Sale of vehicles and parts by Jaguar Land Rover (M) Sdn Bhd to Sisma Auto Sdn Bhd	<u>39</u>	<u>52</u>

A9. Significant Related Party Transactions (continued)

Related party transactions conducted during the half-year ended 31 December are as follows: (continued)

	Half-year ended 31 December	
	2016	2015
d. Transactions with key management personnel and their close family members		
Sales of properties and cars by the Group	<u>1</u>	<u>5</u>

f. Transactions with shareholders and Government

Permodalan Nasional Berhad (PNB) and the funds managed by its subsidiary, Amanah Saham Nasional Berhad, together owns 52% as at 31 December 2016 of the issued share capital of the Company. PNB is an entity controlled by the Malaysian Government through Yayasan Pelaburan Bumiputra (YPB). The Group considers that, for the purpose of FRS 124 – Related Party Disclosures, YPB and the Malaysian Government are in the position to exercise significant influence over it. As a result, the Malaysian Government and Malaysian Government's controlled bodies (collectively referred to as government-related entities) are related parties of the Group and the Company.

Transactions entered into during the financial period with government-related entities include the purchase of chemicals and fertilisers from Chemical Company of Malaysia Berhad group of RM19 million (2015: RM56 million). These related party transactions were entered into in the ordinary course of business on normal trade terms and conditions.

On 5 October 2016, The Glengowrie Rubber Company Sdn Berhad, a subsidiary of Sime Darby Property Berhad, entered into Sale and Purchase Agreements for the proposed disposal of freehold land in Glengowrie Estate measuring approximately 805 acres to Petaling Garden Sdn Bhd (PGSB) for a total cash consideration of RM428.8 million, and Sime Darby Plantation Sdn Bhd entered into Business Asset Purchase Agreements for the proposed acquisitions of the assets of Yong Peng Realty Sdn Bhd (YPR) and Perusahaan Minyak Sawit Bintang Sendirian Berhad (PMSB) for a total cash consideration of RM106.69 million. PGSB, YPR and PMSB are subsidiaries of YPB.

The completion of the above proposals are pending the fulfilment of certain conditions precedent.

A10. Material Events Subsequent to the End of the Financial Period

There were no material event subsequent to the end of the current quarter under review to 20 February 2017, being a date not earlier than 7 days from the date of issue of the quarterly report.

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A11. Effect of Significant Changes in the Composition of the Group

1. Establishment of new companies

- a) On 22 August 2016, Sime Darby Allied Operations Pty Ltd (SDAO) was incorporated in Queensland, Australia with its entire share capital of AUD2 held by Sime Darby Industrial Australia Pty Ltd. The principal activity of SDAO is investment holding.
- b) On 23 August 2016, Pakka Jack International Holdings Inc (PJI) was incorporated in Delaware, United States of America with its entire share capital of USD5,000 held by SDAO. The principal activity of PJI is investment holding.
- c) On 23 August 2016, Pakka Jack International Holdings LLC (PJI) was incorporated in Delaware, United States of America with its entire Member's Capital of USD5,000 contributed by PJI. The principal activity of PJI is the provision of a patented hydraulic jacking system for the maintenance of slew bearings in electric rope and hydraulic mining shovels in the United States of America.
- d) On 26 September 2016, Sime Darby Global Trading (Labuan) Limited (SDGTL) was incorporated in Labuan with its entire issued share capital of USD10 million held by Sime Darby Plantation Sdn Bhd. The principal activities of SDGTL is to carry on business as a trading company including business of commodity trading activities.
- e) On 26 September 2016, Sapphire Industrial Asset Investment Holding Pte Ltd (SIA) was incorporated in Singapore with its entire share capital of S\$2 held by Sime Darby Property Singapore Limited (SDPSL). The principal activity of SIA is investment holding.
- f) On 9 December 2016, Sapphire Australian Industrial Asset Investment Holding Pte Ltd (SAI) was incorporated in Singapore with its entire share capital of S\$2 held by SDPSL. The principal activity of SAI is investment holding.
- g) On 23 December 2016, Sime Darby Asset Management (Australia) Pty Ltd (SDAMA) was incorporated in Australia with its entire share capital of AUD100,000 held by SDPSL. The principal activity of SDAMA is investment management.

2. Disposal of a subsidiary and partial interest in an associate

- a) On 29 September 2016, SDPSL disposed its entire equity interest in Sime Darby Property (Alexandra) Private Limited (SDP Alexandra) to Aster Investment Holding Pte Ltd (Aster) for a total cash consideration of SGD82.55 million (equivalent to approximately RM249.2 million), subject to certain purchase price adjustments. Aster is a subsidiary of Sime Darby Real Estate Investment Trust 1, a joint venture of SDPSL. Following the disposal, SDP Alexandra became an indirect joint venture and ceased to be a subsidiary of the Group.
- b) On 29 September 2016, Sime Darby Nominees Sendirian Berhad (SD Nominees) disposed 125,978,324 ordinary stock units and 48,795,600 convertible warrants 2015/2019 in Eastern & Oriental Berhad (E&O) to Paramount Spring Sdn Bhd for a total cash consideration of RM323.3 million, representing RM2.45 per stock unit and RM0.30 for each convertible warrant. Following the completion of the disposal, the equity interest held by SD Nominees, has reduced from 278,750,700 to 152,772,376 ordinary stock units, representing 12.15% (excluding treasury stocks), in E&O.

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A11. Effect of Significant Changes in the Composition of the Group (continued)

2. Disposal of a subsidiary and partial interest in an associate (continued)

Details of net assets and net cash inflow arising from the disposal of subsidiary are as follows:

	Half-year ended 31 December 2016
Investment properties	60
Net current assets	10
Net assets disposed	70
Gain on disposal	131
Less: Exchange gain included in the gain on disposal	(7)
Proceeds from disposal, net of transaction costs	194
Less: Cash and cash equivalent in subsidiary disposed	(8)
Net cash inflow from disposal of subsidiary during the period	186
Net cash inflow from disposal of subsidiary during the period	186
Proceeds from disposal of subsidiaries in previous years	90
Net cash inflow from disposal of subsidiaries	276

A12. Contingent Liabilities – unsecured

a) Guarantees

In the ordinary course of business, the Group may issue surety bonds and letters of credit, which the Group provides to customers to secure advance payment, performance under contracts or in lieu of retention being withheld on contracts. A liability from the performance guarantees would only arise in the event the Group fails to fulfil its contractual obligations.

The performance guarantees and financial guarantees are as follows:

	As at 20 February 2017	As at 30 June 2016
Performance guarantees and advance payment guarantees to customers of the Group	2,266	2,234
Guarantees in respect of credit facilities granted to:		
- certain associates and a joint venture	118	90
- plasma stakeholders	55	62
	2,439	2,386

In addition, the Group guarantees the payment from its customers under a risk sharing arrangement with a third party leasing company in connection with the sale of its equipment up to a pre-determined amount. As at 20 February 2017, the total outstanding risk sharing amount on which the Group has an obligation to pay the leasing company should the customers default, amounted to RM184 million (30 June 2016: RM258 million).

b) Claims

	As at 20 February 2017	As at 30 June 2016
Claims pending against the Group	14	11

The claims include disputed amounts for the supply of goods and services.

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B. EXPLANATORY NOTES PURSUANT TO PARAGRAPH 9.22 OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of Group Performance

	Half-year ended 31 December 2016	2015 Restated	% +/(–)
Revenue	22,438	22,002	2.0
Segment results:			
Plantation	841	461	82.4
Industrial	106	135	(21.5)
Motors	266	231	15.2
Property	309	187	65.2
Logistics	23	55	(58.2)
Others	24	5	380.0
	1,569	1,074	46.1
Exchange gain/(loss):			
Unrealised	45	(41)	
Realised	27	76	
Corporate expense and elimination	(41)	50	
Profit before interest and tax	1,600	1,159	38.1
Finance income	101	71	
Finance costs	(151)	(294)	
Profit before tax	1,550	936	65.6
Tax expense	(348)	(245)	
Profit for the year	1,202	691	74.0
Perpetual sukuk	(63)	–	
Non-controlling interests	(52)	(82)	
Profit attributable to owners of the Company	1,087	609	78.5

Group revenue for the half-year ended 31 December 2016 was higher by 2.0% compared to the corresponding period of the previous year. Profit before tax of the Group at RM1,550 million was higher by 65.6% largely due to the higher earnings from Plantation, Motors and Property and the reduction in finance costs. Net earnings for the period increased by 78.5% to RM1,087 million from RM609 million a year ago.

An analysis of the results of each segment is as follows:

a) Plantation

Plantation division registered an 82.4% increase in profit to RM841 million compared to the previous year mainly attributable to the higher average crude palm oil (CPO) price realised of RM2,739 per tonne as compared to RM2,076 per tonne previously. The price increase was mainly driven by the lower fresh fruit bunch (FFB) production due to lingering effects of El Nino. The Group FFB production declined by 10.2% from 5.427 million MT to 4.873 million MT whilst the oil extraction rate declined from 22.0% to 21.3%. The lower FFB production was also due to the reduction in mature hectares as the division accelerates its replanting exercise with better planting materials.

Midstream and downstream operations recorded a higher profit of RM121 million compared to the previous year of RM103 million mainly due to higher sales volume and selling prices.

B1. Review of Group Performance (continued)

b) Industrial

Contribution from Industrial division declined by 21.5% to RM106 million principally due to lower engine deliveries to oil & gas and marine sectors in Singapore. Profit contribution from Australasia has improved marginally due to better performance in the product support business coupled with higher equipment deliveries in Papua New Guinea. In China and Malaysia, equipment deliveries and product support sales has also improved driven by the construction sector.

c) Motors

Motors division registered a higher profit by 15.2% to RM266 million due to higher contribution from Malaysia, China and New Zealand, and a gain on disposal of a property in Hong Kong of RM30 million.

In Malaysia, higher profit was registered from Ford and car rental business whilst in China, the higher profit was due to the demand for super luxury cars before a 10% increase in consumption tax that came into effect in December 2016. In New Zealand, higher profit was recorded from Trucks operations.

Contribution from Vietnam declined due to the impact of the changes to the Special Consumption Tax.

d) Property

A higher profit of RM309 million was recorded by Property division compared to RM187 million in the corresponding period of the previous year largely attributable to the gain on the disposal of the entire equity interest in Sime Darby Property (Alexandra) Pte Ltd of RM131 million, the gain on partial disposal of the Group's interest in Eastern & Oriental Berhad of RM35 million and the gain on compulsory acquisition of land of RM58 million.

During the period under review, the division recognised its share of profit from the Battersea Project of RM95 million following the completion of two residential blocks from Phase 1 which mitigated the effect of the lower construction progress in several townships and no contribution from Pagoh Education Hub project as construction works had been substantially completed in the previous financial year.

e) Logistics

Profit from Logistics dropped by RM32 million (58.2%) compared to similar period in the previous year due to lower throughput at Jining ports as a result of tighter environmental control by Jining authority. However, the results was partially mitigated by higher water consumption and higher throughput in Weifang port following the commencement of operations of the new 3 x 30,000 MT berth in August 2016.

f) Others

Contribution from Others increased by RM19 million mainly due to the share of losses in Tesco of RM19 million included in the previous year. The Group has discontinued recognising its share of further losses in excess of its investment in Tesco.

Insurance brokerage business recorded a lower profit compared to the previous year but was mitigated by higher contribution from Healthcare business following the increase in both inpatient and outpatient visits.

g) Finance costs

Finance costs reduced by 48.6% to RM151 million mainly due to the repayment of borrowings from the proceeds of RM2.2 billion perpetual sukuk issued on 24 March 2016 and shares placement of RM2.3 billion on 13 October 2016.

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B2. Material Changes in Profit for the Current Quarter as Compared to the Results of the Preceding Quarter

	Quarter ended		
	31 December 2016	30 September 2016	% +/(–)
Revenue	<u>12,339</u>	<u>10,099</u>	22.2
Segment results:			
Plantation	568	273	108.1
Industrial	55	51	7.8
Motors	136	130	4.6
Property	137	172	(20.3)
Logistics	11	12	(8.3)
Others	14	10	40.0
	<u>921</u>	<u>648</u>	42.1
Exchange gain:			
Unrealised	21	24	
Realised	18	9	
Corporate expense and elimination	<u>(33)</u>	<u>(8)</u>	
Profit before interest and tax	<u>927</u>	<u>673</u>	37.7
Finance income	52	49	
Finance costs	<u>(58)</u>	<u>(93)</u>	
Profit before tax	<u>921</u>	<u>629</u>	46.4
Tax expense	<u>(217)</u>	<u>(131)</u>	
Profit for the period	<u>704</u>	<u>498</u>	41.4
Perpetual sukuk	(32)	(31)	
Non-controlling interests	<u>(28)</u>	<u>(24)</u>	
Profit attributable to owners of the Company	<u>644</u>	<u>443</u>	45.4

Group revenue and pre-tax profit for the second quarter ended 31 December 2016 increased by 22.2% and 46.4% respectively compared to the preceding quarter. Net earnings of the Group increased by 45.4% mainly attributable to the higher earnings from Plantation.

a) Plantation

Plantation division's profit doubled in the current quarter compared to the preceding quarter mainly due to a 26.3% increase in FFB production and the higher average CPO price realised of RM2,835 per tonne against RM2,592 per tonne in the preceding quarter. FFB production was higher in all regions with Malaysia, Indonesia and Papua New Guinea registering an increase of 6.6%, 62.9% and 38.1% respectively.

Midstream and downstream operations recorded a higher profit of RM83 million compared to a profit of RM38 million in the preceding quarter due to higher sales volume and selling prices.

b) Industrial

Industrial division's profit improved by 7.8% compared to the preceding quarter mainly due to higher equipment deliveries and product support sales in China and Malaysia. The higher deliveries in China was due to better demand for small-medium equipment in the construction and mining sectors whilst in Malaysia was driven by major infrastructure projects. Lower contribution was registered in Australia but was partially mitigated by improvement in the product support business in Papua New Guinea.

B2. Material Changes in Profit for the Current Quarter as Compared to the Results of the Preceding Quarter (continued)

c) Motors

Motors division's profit improved marginally by RM6 million to RM136 million compared to the results of the preceding quarter which included the gain on disposal of a property in Hong Kong of RM30 million. Excluding the gain on the disposal of the property, operating profit has increased by 36%. The better performance was mainly attributable to higher contribution from Malaysia, China, Singapore and New Zealand. Higher profits were registered from Ford in Malaysia, BMW in China and Singapore and Trucks in New Zealand.

d) Property

Profit from Property division for the current quarter declined by 20.3% compared to the preceding quarter largely due to the gain on disposal of the Group's investments in Eastern & Oriental Berhad and Sime Darby Property (Alexandra) Pte Ltd of RM35 million and RM131 million respectively in the preceding quarter. In the current quarter, Property division registered a gain on compulsory acquisition of land of RM58 million and recognised its share of profit from the Battersea Project of RM95 million following the completion of two residential blocks from Phase 1.

e) Logistics

Logistics recorded a slight decline in profit to RM11 million mainly attributable to the lower throughput at Jining ports as a result of tighter environmental control by Jining authority.

B3. Prospects

The global financial markets continue to be marked by uncertainty on changes to economic policies, particularly in the US and the continued volatility in foreign exchange rates. The uncertainty will affect the prospects of a sustainable global economic recovery. Hence, the market environment where the Group operates is expected to continue to remain challenging.

The financial performance of the Plantation division in the current financial year will be driven by the higher crude palm oil and palm kernel prices coupled with the higher contribution from midstream and downstream operations, largely attributable to expected higher sales volume and selling prices. The investment in New Britain Palm Oil Limited is generating positive contribution as synergy benefits are being realised. However, the division's progress in Liberia has been challenging due to the previous Ebola outbreak and the requirement to comply with the land development moratorium. The intense replanting exercise which the division has embarked on since the last financial year would contribute significantly towards improving productivity and reducing operating cost in the longer term.

Although coal prices have improved in recent months, demand for new equipment has continued to be slow. Nevertheless, demand for product support in the current financial year is expected to be higher. Demand for engines from the oil and gas industry remains subdued, with further deferment of deliveries while capital expenditure by the major oil and gas companies are unlikely to rebound significantly in the near term.

The Motors operations in Malaysia continue to be adversely impacted by stringent bank lending policies on vehicle financing and soft consumer confidence. The weaker Ringgit against foreign currencies, particularly the US dollar, continue to affect margins and price competitiveness. Lower contribution has been recorded from Vietnam and Australia while the better performance in China and New Zealand has helped to support the division's profitability. The launch of new car models, likely in the next quarter is expected to boost sales in the second half of 2017.

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B3. Prospects (continued)

The Malaysian residential property market remains weak due to cautious consumer sentiment and tight lending conditions. However, demand for the Property division's upcoming launches of more affordable properties is still expected to remain strong. The Group has recognised its maiden profit from Phase 1 of the Battersea project in the quarter ended 31 December 2016 and further contribution from the delivery of the remaining Phase 1 units are expected in 2017.

The Port operations in Weifang continue to be affected by the slower economic growth in the region and strong competition from neighbouring ports and alternative lower cost land transportation. The commencement of operations of the 3 x 30,000 deadweight tonne berths in the last quarter of 2016 has enhanced the competitiveness of Weifang Port by reducing operating cost per tonne.

Against the challenging operating environment, the Board expects the Group's performance for the financial year ending 30 June 2017 to be satisfactory.

B4. Statement by Board of Directors on Internal Targets

The Group's key performance indicators (KPI) for the financial year ending 30 June 2017 as approved by the Board of Directors on 24 November 2016 and the achievement for the half-year ended 31 December 2016 are as follows:

	Actual Half-year ended 31 December 2016	Target Year ending 30 June 2017
Profit attributable to owners of the Company (RM million)	<u>1,087</u>	<u>2,200</u>
Return on average shareholders' equity (%)	<u>3.1</u>	<u>6.4</u>

For the half-year ended 31 December 2016, the profit attributable to ordinary equity holders and the return on average shareholders' equity achieved by the Group are approximately 49% and 48% respectively of its targets.

B5. Variance of Actual Profit from Profit Forecast or Profit Guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

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B6. Operating Profit and Finance Costs

	Quarter ended 31 December		Half-year ended 31 December	
	2016	2015 Restated	2016	2015 Restated
Included in operating profit are:				
Depreciation and amortisation	(435)	(455)	(854)	(869)
Amortisation of prepaid lease rentals	(13)	(13)	(25)	(24)
Reversal of impairment/(Impairment) of				
- property, plant and equipment	–	(1)	10	(2)
- prepaid lease rentals	(3)	–	(3)	–
- investment properties	–	–	8	(1)
- investment	(4)	–	(10)	–
- receivables	7	(2)	(17)	(2)
Write down of inventories (net)	(54)	(34)	(92)	(57)
Gain/(loss) on disposal of				
- property, plant and equipment				
- land and buildings	11	4	12	11
- others	6	–	7	(2)
- investment properties	–	–	30	–
- a subsidiary	–	–	131	8
- interest in an associate	–	–	30	–
- investment	–	–	5	–
Net foreign exchange gain/(loss)	26	(26)	114	11
Fair value loss on warrant in an associate	–	(1)	–	(3)
Gain/(loss) on cross currency swap contract	27	(39)	8	74
(Loss)/gain on commodity future contracts (refer Note)	(73)	11	(86)	4
Loss on forward foreign exchange contracts	(20)	–	(16)	(11)
Included in finance costs are:				
Gain/(loss) on interest rate swap contracts	–	21	–	(2)
Loss on cross currency swap interest	(6)	(18)	(14)	(40)

Note: Included in the loss on commodity future contracts for the current quarter and half-year ended 31 December 2016 were the unrealised fair value losses of RM71 million on contracts entered to hedge the selling price of a portion of the Group's forecast crude palm oil production.

B7. Tax Expense

	Quarter ended 31 December		Half-year ended 31 December	
	2016	2015 Restated	2016	2015 Restated
In respect of the current year:				
- current tax	215	128	328	256
- deferred tax	(8)	1	24	(8)
	207	129	352	248
In respect of prior years:				
- current tax	11	2	15	12
- deferred tax	(1)	8	(19)	(15)
	217	139	348	245

The effective tax rates for the current quarter and half-year ended 31 December 2016 are 24% and 22% respectively. The effective tax rate for the half-year ended 31 December 2016 was lower than the Malaysian income tax rate of 24% mainly due to the gain on disposal of Sime Darby Property (Alexandra) Pte Ltd of RM131 million and certain other gains which are not subjected to tax.

B8. Status of Corporate Proposals

The corporate proposals announced but not completed as at 20 February 2017 are as follows:

- a) Proposed disposal of Industrial Properties and acquisition of Japan Residential Assets Manager Limited
 - i. On 15 August 2016, Sime Darby Property Singapore Limited (SDPSL) entered into a conditional Share Purchase Agreement with Japan Regional Assets Manager Limited (JRegional) for the acquisition of 80% of the issued shares of Japan Residential Assets Manager Limited (JRAM) for a consideration equivalent to the aggregate of 80% of JRAM's net assets and USD1 million (equivalent to RM4.5 million). SDPSL shall be entitled to a call option to acquire the remaining 20% equity interest held by JRegional at any time after 24 months from the completion of the acquisition at an amount to be determined and mutually agreed.
 - ii. On 10 October 2016, Sime Darby Eastern Investments Private Limited (SDEIPL) and SDPSL entered into an implementation agreement (Implementation Agreement) with JRAM (in its capacity as manager of Saizen Real Estate Investment Trust (Saizen REIT)) and Perpetual Corporate Trust Limited (in its capacity as trustee of Sime REIT Australia) (HAUT Trustee) in relation to:
 - a. the proposed disposal by Hastings Deering (Australia) Limited and Austchrome Pty Ltd, indirect wholly-owned subsidiaries of SDEIPL, of 20 industrial properties located in Queensland and the Northern Territory, Australia to Saizen REIT for a total consideration of AUD355.8 million (equivalent to RM1,151.1 million), and
 - b. the proposed acquisition of new units in Saizen REIT by SDPSL.

The consideration for the properties shall be satisfied in the following manner:

- a. the sum of AUD282.6 million shall be satisfied with promissory notes to be issued by SDPSL, and cash proceeds from placement of new units in Saizen REIT; and
- b. AUD73.2 million in cash from external bank financing

Saizen REIT intends to acquire and hold the properties through a sub-trust of Sime REIT Australia, a wholly-owned head Australian trust (HAUT). The properties will be master leased to Hastings Deering Property Services Pty Ltd.

The completion of the transactions (i) and (ii) above, which are subjected to certain conditions precedent, are inter-conditional and shall occur simultaneously.

- b) On 6 January 2017, Sime Darby Overseas (HK) Limited (SDOHK) entered into a joint venture arrangement with Shandong Chenming Paper Holdings Limited (SCPHL) in accordance with the following agreement and contract:
 - i. Equity Purchase Agreement (EPA) among SDOHK, Weifang Sime Darby Port Co Ltd (WSDP) and SCPHL to dispose 50.0% equity interest in Weifang Sime Darby West Port Co Ltd (WSDWP), of which 49.0% is held by SDOHK and 1.0% is held by WSDP, to SCPHL for a total cash consideration of RMB38.61 million (equivalent to approximately RM24.9 million); and
 - ii. Joint Venture Contract (JVC) between SDOHK and SCPHL for the management and administration of the affairs of WSDWP and the 3x30,000 Deadweight Tonne multipurpose terminal at the Weifang Sime Darby Port located in Shandong Province, China.

The completion of the EPA is subjected to certain conditions precedent. The JVC will be effective upon completion of the EPA.

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B9. Group Borrowings

	As at 31 December 2016		
	Secured	Unsecured	Total
<u>Long-term borrowings</u>			
Term loans	412	4,371	4,783
Islamic Medium Term Notes	–	700	700
Sukuk	–	3,583	3,583
Syndicated Islamic financing	850	–	850
Islamic financing	249	250	499
Revolving credits and other long-term borrowings	–	1,584	1,584
	<u>1,511</u>	<u>10,488</u>	<u>11,999</u>
<u>Short-term borrowings</u>			
Bank overdrafts	–	6	6
Term loans due within one year	44	866	910
Islamic Medium Term Notes due within one year	–	2	2
Sukuk due within one year	–	40	40
Syndicated Islamic financing within one year	45	–	45
Islamic Bankers Acceptance	–	48	48
Revolving credits, trade facilities and other short-term borrowings	181	1,936	2,117
	<u>270</u>	<u>2,898</u>	<u>3,168</u>
Total borrowings	<u>1,781</u>	<u>13,386</u>	<u>15,167</u>

The breakdown of borrowings between the principal and interest portion are as follows:

	As at 31 December 2016		
	Secured	Unsecured	Total
Borrowings			
- principal	1,778	13,336	15,114
- interest	3	50	53
Total borrowings	<u>1,781</u>	<u>13,386</u>	<u>15,167</u>

The Group borrowings in RM equivalent analysed by currencies in which the borrowings are denominated are as follows:

	Long-term borrowings	Short-term borrowings	Total
Ringgit Malaysia	3,293	536	3,829
Australian dollar	–	16	16
Chinese renminbi	–	175	175
European Union Euro	470	5	475
Indonesian Rupiah	–	262	262
New Zealand dollar	–	141	141
Pacific franc	34	3	37
Singapore Dollar	–	31	31
Taiwan dollar	–	40	40
Thailand baht	57	157	214
United States dollar	8,145	1,654	9,799
Vietnamese dong	–	148	148
Total borrowings	<u>11,999</u>	<u>3,168</u>	<u>15,167</u>

Certain borrowings are secured by fixed and floating charges over property, plant and equipment, investment property and other assets of certain subsidiaries.

B10. Financial Instruments and Realised and Unrealised Profits or Losses

a) Derivatives

The Group uses forward foreign exchange contracts, interest rate swap contracts, cross currency swap contracts and commodity futures contracts to manage its exposure to various financial risks. The fair values of these derivatives as at 31 December 2016 are as follows:

	Classification in Statement of Financial Position				Net Fair Value
	Assets		Liabilities		
	Non-current	Current	Non-current	Current	
Forward foreign exchange contracts	–	43	(1)	(34)	8
Interest rate swap contracts	13	3	–	(9)	7
Cross currency swap contract	105	99	–	–	204
Commodity futures contracts	–	12	–	(88)	(76)
	118	157	(1)	(131)	143

There is no change to the type of derivative financial contracts entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate these risks since the financial year ended 30 June 2016.

The description, notional amount and maturity profile of each derivative are shown below:

Forward foreign exchange contracts

Forward foreign exchange contracts were entered into by subsidiaries in currencies other than their functional currency in order to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.

The forward foreign currency contracts are stated at fair value, using the prevailing market rates. All changes in fair value of the forward foreign currency contracts are recognised in the other comprehensive income statement unless it does not meet the conditions for the application of hedge accounting, in which case, the changes to the fair value of the derivatives are taken to profit or loss.

As at 31 December 2016, the notional amount, fair value and maturity tenor of the forward foreign exchange contracts are as follows:

	Notional Amount	Fair Value Assets/ (Liabilities)
- less than 1 year	4,278	9
- 1 year to 2 years	7	(1)
	4,285	8

B10. Financial Instruments and Realised and Unrealised Profits or Losses (continued)

a) Derivatives (continued)

Interest rate swap contracts

The Group has entered into interest rate swap contracts to convert floating rate liabilities to fixed rate liabilities to reduce the Group's exposure from adverse fluctuations in interest rates on underlying debt instruments. The differences between the rates calculated by reference to the agreed notional principal amounts were exchanged at periodic intervals. All changes in fair value during the financial year are recognised in the other comprehensive income statement unless it does not meet the conditions for the application of hedge accounting, in which case, the changes to the fair value of the derivatives are taken to profit or loss.

The outstanding interest rate swap contracts, all plain vanilla, as at 31 December 2016 are as follows:

Effective period	Notional amount	All-in swap rate per annum
12 December 2012 to 12 December 2018	USD133.1 million	1.822% to 1.885%
11 June 2015 to 4 February 2022	USD350.0 million	2.85% to 2.99%
30 June 2015 to 17 December 2018	MYR156.0 million	3.938%

As at 31 December 2016, the notional amount, fair value and maturity tenor of the interest rate swap contracts are as follows:

	Notional Amount	Fair Value Assets/ (Liabilities)
- less than 1 year	374	(6)
- 1 year to less than 3 years	1,077	5
- 3 years to 6 years	871	8
	2,322	7

Cross currency swap contract

The Group has entered into a cross currency swap contract to exchange the principal payments of a foreign currency denominated loan into another currency to reduce the Group's exposure from adverse fluctuations in the foreign currency exchange rate. All changes in fair value during the financial year are recognised in the other comprehensive income statement unless it does not meet the conditions for the application of hedge accounting, in which case, the changes to the fair value of the derivatives are taken to profit or loss.

As at 31 December 2016, the notional amount, fair value and maturity tenor of the cross currency swap contract are as follows:

	Notional Amount	Fair Value Assets/ (Liabilities)
- less than 1 year	399	99
- 1 year to less than 3 years	397	105
	796	204

B10. Financial Instruments and Realised and Unrealised Profits or Losses (continued)

a) Derivatives (continued)

Commodity futures contracts

Commodity futures contracts were entered into by subsidiaries to manage exposure to adverse movements in vegetable oil prices. These contracts were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected purchase, sale and usage requirements, except for those contracts shown below.

The outstanding commodity futures contracts as at 31 December 2016 that are not held for the purpose of physical delivery are as follows:

	Quantity (metric tonne)	Notional Amount	Fair Value Assets/ (Liabilities)
Purchase contracts	66,684	209	7
Sales contracts	308,752	876	(83)
			<u>(76)</u>

All contracts mature within one year.

b) Fair Value Changes of Financial Liabilities

Other than derivatives which are classified as liabilities only when they are at fair value loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after the initial recognition.

c) Realised and Unrealised Profits or Losses

The breakdown of realised and unrealised retained profits of the Group are as follows:

	As at 31 December 2016	As at 30 June 2016
Total retained profits of the Company and its subsidiaries		
- realised	26,759	26,255
- unrealised	4,672	5,188
	<u>31,431</u>	<u>31,443</u>
Total share of retained profits from joint ventures		
- realised	49	(74)
- unrealised	2	28
	<u>51</u>	<u>(46)</u>
Total share of retained profits from associates		
- realised	275	266
- unrealised	(43)	(30)
	<u>232</u>	<u>236</u>
Less: consolidation adjustments	(13,088)	(12,762)
Total retained profits of the Group	<u>18,626</u>	<u>18,871</u>

The unrealised profits are determined in accordance with the Guidance on Special Matter No. 1 issued by the Malaysian Institute of Accountants.

B11. Material Litigation

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 February 2017 are as follows:

a) Qatar Petroleum Project (QP Project), Maersk Oil Qatar Project (MOQ Project) and the Marine Project Civil Suits (O&G Suit)

On 23 December 2010, Sime Darby Berhad, Sime Darby Engineering Sdn Bhd (SDE), Sime Darby Energy Sdn Bhd, Sime Darby Marine Sdn Bhd and Sime Darby Marine (Hong Kong) Pte Ltd (collectively, the Plaintiffs) filed a civil suit in the High Court against Dato' Seri Ahmad Zubair @ Ahmad Zubir Hj Murshid, Dato' Mohamad Shukri Baharom, Abdul Rahim Ismail, Abdul Kadir Alias and Mohd Zaki Othman (collectively, the Defendants) claiming, inter alia, damages arising from the Defendants' negligence and breaches of duty in relation to the QP Project, the MOQ Project and the project relating to the construction of a derrick lay barge known as the Marine Project. The aggregate amount claimed was RM93.3 million and USD78.8 million (equivalent to approximately RM353.4 million) together with general and aggravated damages to be assessed and other relief.

On 13 June 2014, all the Defendants consented to judgment being recorded on the Defendants' liability (Consent Judgment) with damages to be assessed.

The Plaintiffs shall be permitted to enforce judgment against any of the Defendants upon the Plaintiffs recovering all claims from the respective employers for the QP Project and the MOQ Project and the proceeds of sale of the derrick lay barge, or after the expiry of 3 years from the date of final judgment, whichever is earlier.

The amount of damages will be assessed by the Court. The Plaintiffs have filed a Notice of Application for directions to assess damages (Plaintiffs' Application for Assessment). Each of the 1st, 2nd, 4th and 5th Defendants have filed a Notice of Application for a stay of proceedings (Defendants' Application for Stay). Hearing dates for the Defendants' Application for Stay and the Plaintiffs' Application for Assessment have been fixed on 16 March 2017 and 30 March 2017, respectively.

b) Bakun Hydroelectric Project (Bakun Project) and the Indemnity Agreement Civil Suits (Bakun Suit)

On 24 December 2010, Sime Darby Berhad, Sime Engineering Sdn Bhd, Sime Darby Holdings Berhad and Sime Darby Energy Sdn Bhd (collectively, the Plaintiffs) filed a civil suit in the High Court against Dato' Seri Ahmad Zubair @ Ahmad Zubir Hj Murshid, Dato' Mohamad Shukri Baharom (DMS) and Abdul Rahim Ismail (collectively, the Defendants) claiming, inter alia, damages in connection with the Defendants' negligence and breaches of duty in relation to the Package CW2-Main Civil Works for the Bakun Project and in respect of the Receipt, Discharge and Indemnity Agreement dated 12 January 2010 (Indemnity Agreement) given to DMS. The aggregate amount claimed was RM91.4 million together with general and aggravated damages to be assessed and other relief.

On 13 June 2014, all the Defendants consented to judgment being recorded on the Defendants' liability (Consent Judgment) with damages to be assessed.

The Plaintiffs shall be permitted to enforce judgment against any of the Defendants upon the Malaysia-China Hydro Joint Venture receiving full settlement from Sarawak Hidro Sdn Bhd or the Ministry of Finance and/or an assignee or successor in title thereof in relation to the Bakun Project, or after the expiry of 3 years from the date of final judgment, whichever is earlier.

The amount of damages will be assessed by the Court. The Plaintiffs have filed a Notice of Application for directions to assess damages (Plaintiffs' Application for Assessment). Each of the 1st and 2nd Defendants have filed a Notice of Application for a stay of proceedings (Defendants' Application for Stay). Hearing dates for the Defendants' Application for Stay and the Plaintiffs' Application for Assessment have been fixed on 16 March 2017 and 30 March 2017, respectively.

B11. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 February 2017 are as follows: (continued)

c) Emirates International Energy Services (EMAS)

EMAS had on 13 January 2011, filed a civil suit in the Plenary Commercial Court in Abu Dhabi against Sime Darby Engineering Sdn Bhd (SDE) (First Suit) claiming payment of USD178.2 million comprising (a) a payment of USD128.2 million for commissions; and (b) a payment of USD50.0 million as “morale compensation”.

SDE filed its Statement of Defence and Counter Claim for the sum of AED100 million (equivalent to approximately RM122.1 million) on 14 August 2011. SDE’s Statement of Defence contained a request for the matter to be referred to arbitration. On 22 August 2011, the Court dismissed the First Suit. EMAS did not appeal against the Court’s decision.

i. Proceedings at the Judicial Department of Abu Dhabi

On 31 March 2012, EMAS filed the Second Suit against SDE at the Judicial Department of Abu Dhabi. The claim of USD178.2 million by EMAS was based on the same facts and grounds as the First Suit.

On 18 May 2014, despite the objection of the parties, the Court issued judgment for the sum of AED41.0 million (equivalent to approximately RM50.1 million) against SDE.

The parties appealed to the Court of Appeal against the Court’s decision. On 2 July 2014, the Court of Appeal reversed the finding of the Court (Court of Appeal’s Decision).

On 1 September 2014, EMAS filed an appeal to the Supreme Court against the Court of Appeal’s Decision. On 25 December 2014, the Supreme Court dismissed EMAS’s appeal against the Court of Appeal’s Decision. By virtue of the Supreme Court’s decision, EMAS has effectively exhausted all its avenues in the Abu Dhabi courts in pursuing its claim against SDE.

ii. Proceedings at Dubai Chamber of Commerce and Industry (DIAC)

On 24 January 2016, EMAS submitted a Request for Arbitration against SDE to DIAC. The amount claimed by EMAS as stated in the Request is AED41.0 million (equivalent to approximately RM50.1 million).

On 20 March 2016, SDE submitted its response to the Request. DIAC confirmed the appointment of the arbitrators and the tribunal chairman on 6 June 2016 and 26 June 2016, respectively.

The tribunal set the proceeding schedule and tentatively fixed the matter for hearing from 15 to 20 January 2018.

d) Qatar Petroleum (QP) Statement of Claim

On 15 August 2012, Sime Darby Engineering Sdn Bhd (SDE) filed a Statement of Claim at the Qatar Court against QP for the sum of QAR1.0 billion (equivalent to approximately RM1.2 billion). The claim seeks the repayment of a liquidated performance bond, payment of outstanding invoices, compensation and additional costs incurred in relation to an offshore engineering project in Qatar undertaken by SDE pursuant to a contract dated 27 September 2006.

On 15 May 2014, a panel of 3 experts were appointed to assist the Court. On 1 April 2015, the experts submitted their report and recommended that SDE be compensated in the sum of QAR13.5 million (equivalent to approximately RM16.6 million) (Expert Report). At the hearing on 14 April 2015, the parties submitted their objections to the Expert Report.

On 8 June 2016, the experts submitted their 2nd report and recommended that SDE be compensated the sum of QAR12.9 million (Expert 2nd Report). At the hearing on 23 June 2016, the parties submitted their objections to the Expert 2nd Report. On 21 July 2016, the Court delivered its judgment and ordered QP to pay QAR12.9 million (equivalent to approximately RM15.9 million) to SDE (Judgment). On 24 August 2016, SDE filed enforcement proceedings against QP to enforce the Judgment.

B11. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 February 2017 are as follows: (continued)

d) Qatar Petroleum (QP) Statement of Claim (continued)

On 6 September 2016, QP filed an appeal to the Court of Appeal against the Judgment. On 25 September 2016, SDE filed its appeal against the Judgment. On 5 January 2017, the Court allowed QP's application for stay of the enforcement proceedings pending disposal of the parties' appeal.

The hearing of the parties' appeal has been adjourned to 23 April 2017.

e) Oil and Natural Gas Corporation Ltd (ONGC) (O5WHP Project)

Sime Darby Engineering Sdn Bhd (SDE) and Swiber Offshore Construction Pte Ltd (SOC) entered into a Consortium Agreement dated 23 February 2010 (CA) to govern their relationship as a Consortium in relation to the execution and performance of the 05 Wellhead Platform Project (O5WHP Project) awarded by ONGC. A contract dated 26 February 2010 (Contract) was executed for a total contract price of USD188.9 million.

Disputes and differences relating to the O5WHP Project have arisen between the Consortium and ONGC and the Consortium has invoked the referral of the dispute to arbitration pursuant to the Contract. SDE's portion of the Consortium's claim is circa USD32.5 million. The Consortium and ONGC agreed to refer the dispute to an Outside Expert Committee (OEC).

On 2 December 2014, the OEC issued its report, recommending USD12 million in full and final settlement in favour of the Consortium (OEC Recommendation), of which USD6.7 million (equivalent to approximately RM30.0 million) was apportioned to SDE and USD5.3 million (equivalent to approximately RM23.8 million) to SOC. On 20 March 2015, the Consortium informed ONGC of its objection to the OEC's recommendation and sought a higher amount of compensation. On 19 April 2015, ONGC rejected the Consortium's request.

On 21 December 2015, the Consortium issued a notice to ONGC of its intention to proceed with arbitration. During the preliminary meeting held on 13 July 2016 in Mumbai, the tribunal set the proceedings schedule and the next procedural meeting has been fixed on 17 December 2016.

On 5 October 2016, ONGC confirmed its willingness to reconsider the OEC Recommendation and have initiated its internal process for approval of a settlement. The Consortium is awaiting further confirmation from ONGC.

The procedural meeting on 17 December 2016 has been adjourned pending the outcome of settlement by the parties.

f) Oil and Natural Gas Corporation Ltd (ONGC) (B-193 Process Platform)

Sime Darby Engineering Sdn Bhd (SDE) and Swiber Offshore Construction Pte Ltd (SOC) entered into a Consortium Agreement dated 3 July 2010 (CA) to govern their relationship as a Consortium to undertake works relating to the B-193 Process Platform Project (PP Project) awarded by ONGC. A contract dated 3 July 2010 (Contract) was executed for a total contract price of USD618.4 million.

On 1 June 2016, the Consortium initiated arbitration proceedings against ONGC and nominated its arbitrator. SDE's portion of the Consortium's claim is circa USD76 million. On 12 September 2016, ONGC nominated its arbitrator. The tribunal chairman fixed a preliminary meeting on 8 October 2016.

On 2 September 2016, the Consortium agreed to refer the dispute to an Outside Expert Committee (OEC) and sought ONGC's agreement to the same. The Consortium is awaiting ONGC's response.

B11. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 February 2017 are as follows: (continued)

f) Oil and Natural Gas Corporation Ltd (ONGC) (B-193 Process Platform) (continued)

In view of the Consortium's intention to refer the dispute to the OEC, the preliminary meeting on 8 October 2016 has been adjourned to 16 February 2017 for further directions.

On 16 February 2017, the tribunal fixed the matter for hearing on 10 to 14 July 2017 and 14 to 18 August 2017.

g) Malaysia Marine and Heavy Engineering (MMHE) Notice of Arbitration

MMHE and Sime Darby Engineering Sdn Bhd (SDE) entered into a Sale and Purchase Agreement dated 25 August 2011 (SPA) for the disposal of SDE's oil and gas business to MMHE for a consideration of RM393.5 million and subsequently entered into a Supplemental Agreement dated 30 March 2012 (SSPA) to vary certain terms and conditions of the SPA.

The SSPA provides, inter alia, that the fabrication of KBB Topsides Contract No. KPOC/COC/2009/015 for the Keabangan Northern Hub Development (KPOC Project) between Keabangan Petroleum Operating Company Sdn Bhd and SDE dated 20 September 2011 shall be novated by SDE to MMHE with effect from 31 March 2012 for a consideration of RM20.0 million.

Disputes relating to the KPOC Project have since arisen between the parties.

On 17 March 2015, SDE received a Notice of Arbitration dated 16 March 2015 (Notice) from MMHE to refer the disputes to arbitration before the Regional Centre for Arbitration Kuala Lumpur (KLIRCA) in accordance with the Rules of Arbitration of the KLIRCA. The claim from MMHE as stated in the Notice is RM56.9 million but was subsequently revised to RM49.3 million on 7 September 2015.

Hearing commenced from 8 to 18 November 2016 and the case was adjourned for continued hearing from 21 to 24 March 2017.

h) Claim against PT Anzawara Satria

On 11 May 2006, PT Sajang Heulang (PT SHE), a subsidiary of Sime Darby Plantation Sdn Bhd filed legal action in the District Court of Kotabaru against PT Anzawara Satria (PT AS) claiming for the surrender of approximately 60 hectares of land forming part of Hak Guna Usaha (HGU) 35 belonging to PT SHE on which PT AS had allegedly carried out illegal coal mining activities.

On 5 March 2006, the District Court of Kotabaru ruled in favour of PT AS and declared that HGU 35 was defective and had no force of law and that PT AS had the right to conduct mining activities on the said land (District Court Kotabaru Decision). PT SHE appealed to the High Court of Kalimantan Selatan at Banjarmasin against the District Court Kotabaru Decision. On 4 December 2007, the High Court of Kalimantan Selatan at Banjarmasin upheld the District Court Kotabaru Decision (1st High Court Decision). On 12 February 2008, PT SHE appealed to the Supreme Court of Indonesia against the 1st High Court Decision. On 10 March 2011, the Supreme Court ruled in favour of PT AS and ordered PT SHE to surrender 2,000 hectares of land in Desa Bunati to PT AS (1st Judicial Review Decision).

Meanwhile, on 24 May 2006, PT AS claimed in the State Administration Court Banjarmasin for an order that the mining rights held by PT AS superseded the HGU 35 held by PT SHE and that the said HGU 35 measuring approximately 2,128 hectares was improperly issued to PT SHE. On 26 September 2006, the State Administration Court Banjarmasin ruled in favour of PT SHE and dismissed PT AS's claim (State Administration Court Banjarmasin Decision). PT AS appealed to the High Court of State Administration at Jakarta against the State Administration Court Banjarmasin Decision. On 19 February 2007, the High Court of State Administration at Jakarta ruled in favour of PT AS and nullified PT SHE's HGU 35 (2nd High Court Decision). On 9 December 2009, PT SHE appealed to the Supreme Court against the 2nd High Court Decision. On 26 October 2010, the Supreme Court declared PT SHE as the lawful owner of HGU 35 (2nd Judicial Review Decision).

B11. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 February 2017 are as follows: (continued)

h) Claim against PT Anzawara Satria (continued)

On 7 November 2011, PT SHE filed judicial review proceedings (3rd Judicial Review) before the Supreme Court seeking a decision on the conflicting decisions comprised by the 1st and the 2nd Judicial Review Decisions. On 28 December 2012, the Supreme Court dismissed the 3rd Judicial Review on the ground that the application could not be determined by another judicial review decision.

On 27 March 2013, PT AS commenced execution of the 1st Judicial Review Decision and in carrying out the execution proceedings, felled oil palm trees and destroyed buildings and infrastructure, resulting in damage to approximately 1,500 hectares of land. On 23 April 2014, PT SHE filed a claim at the District Court of Batu Licin against PT AS for the sum of IDR672.8 billion (approximately RM224.0 million) for loss and/or damage caused by PT AS in executing the 1st Judicial Review Decision.

On 20 January 2015, the District Court of Batu Licin decided in favour of PT SHE and awarded damages in the sum of IDR69.9 billion (approximately RM23.3 million) and on 13 February 2015 issued a written decision (District Court Batu Licin Decision). On 29 January 2015, PT AS filed an appeal to the High Court of Kalimantan Selatan, Banjarmasin against the District Court Batu Licin Decision.

On 10 February 2016, the High Court of Kalimantan Selatan, Banjarmasin ruled in favour of PT AS on the ground that the same subject matter (claim for execution/compensation) and the same object matter (being 60 hectares of land in Desa Bunati) had been deliberated and decided by the High Courts and Supreme Courts. Thus, PT SHE is not entitled to bring the same action before the District Court of Batu Licin (3rd High Court Decision).

On 22 February 2016, PT SHE filed an appeal to the Supreme Court against the 3rd High Court Decision. On 28 March 2016, PT AS filed its reply to PT SHE's appeal. The parties are awaiting the Supreme Court's decision.

i) New Britain Palm Oil Limited ("NBPOL") v. Masile Incorporated Land Group ("Masile"), NBPOL v. Rikau Incorporated Land Group ("Rikau") & NBPOL v. Meloks Incorporated Land Group ("Meloks")

On 30 August 2011 (prior to the acquisition of NBPOL by Sime Darby Plantation Sdn Bhd on 2 March 2015), NBPOL initiated three separate legal actions against Masile, Rikau and Meloks (collectively, Defendants) in the National Court of Justice at Waigani, Papua New Guinea (Court). All three actions relate to the same cause of action in that the Defendants had defaulted in their obligations to surrender the Special Agricultural Business Leases (SABLS) to NBPOL for registration of the sub-leases despite having received benefits under the sub-lease agreements (SLAs), which include, rent paid by NBPOL for the customary land of 3,720 hectares (Land), royalties for the fresh fruit bunches harvested from the Land and 31,250 ordinary shares in NBPOL issued to each of the Defendants. NBPOL sought orders for specific performance requiring the Defendants forthwith deliver to NBPOL the SABLS to enable the sub-leases to be registered in accordance with the Land Registration Act.

By an Amended Statement of Claim dated 3 November 2014, in addition to NBPOL's claim for specific performance for the Defendants to surrender their SABLS, in the alternative, NBPOL claimed compensation for costs incurred by NBPOL in developing the Land into an oil palm estate amounting to PGK30.7 million (equivalent to RM43.4 million), compensation for appreciation of the value of the Land due to the development by NBPOL and compensation for 31,250 ordinary shares in NBPOL issued to each of the Defendants pursuant to the SLAs.

The Defendants in turn via their Defence and Cross-Claim filed on 23 April 2012, Amended Defence and Cross-Claim filed on 9 September 2012 and Further Amended Defence and Cross-Claim filed on 11 December 2014, cross-claimed amongst others, that the SLAs were unfair and inequitable agreements, and should be declared invalid, void and of no effect as well as damages for environmental damage and trespass to property by NBPOL.

Trial relating to the Meloks claim was concluded on 2 November 2016. The Court will fix a date for decision.

SIME DARBY BERHAD
(Company No: 752404-U)

Explanatory Notes on the Quarterly Report – 31 December 2016
Amounts in RM million unless otherwise stated

B12. Dividend

An interim single tier dividend of 6.0 sen per share in respect of the financial year ending 30 June 2017, which is not taxable in the hands of the shareholders pursuant to paragraph 12B of Schedule 6 of the Income Tax Act 1967 has been declared and will be paid on 5 May 2017. The entitlement date for the dividend payment is 21 April 2017.

A depositor shall qualify for entitlement to the dividend only in respect of:

- (i) shares deposited into the depositor's securities account before 12.30 pm on 19 April 2017 in respect of shares which are exempted from mandatory deposit;
- (ii) shares transferred into the depositor's securities account before 4.00 pm on 21 April 2017 in respect of transfers; and
- (iii) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

The interim single tier dividend declared for the previous corresponding period was 6.0 sen per share.

B13. Earnings Per Share

	Quarter ended 31 December		Half-year ended 31 December	
	2016	2015 Restated	2016	2015 Restated
Earnings per share attributable to owners of the Company are computed as follows:				
<u>Basic and diluted</u>				
Profit for the period	644	285	1,087	609
Weighted average number of ordinary shares in issue (million)	6,631	6,211	6,479	6,211
Earnings per share (sen)	<u>9.7</u>	<u>4.6</u>	<u>16.8</u>	<u>9.8</u>

B14. Comparatives

The Group changed its accounting policy for bearer plants to be in line with the accounting requirements of FRS 116 – Property, Plant and Equipment in the third quarter ended 31 March 2016 for the financial year ended 30 June 2016. The change in the accounting policy has been applied retrospectively. Accordingly, the results, statement of changes in equity and cash flows for second quarter ended 31 December 2015 shown as comparatives to this interim financial report have been restated to comply with the new accounting policy.

Kuala Lumpur
27 February 2017

By Order of the Board
Norzilah Megawati Abdul Rahman
Mazlina Mohd Zain
Group Secretaries