Developing
Sustainable
Futures

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17 November 2017

BY FAX/HAND
(Fax No.: 603 - 2070 9107)

MINORITY SHAREHOLDER WATCHDOG GROUP
11th Floor, Bangunan KWSP
No. 3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: Puan Lya Rahman
General Manager, Corporate Services

Dear Sirs,

Eleventh Annual General Meeting of Sime Darby Berhad to be held on 20 November 2017 at 10.00 a.m.

Thank you for your letter dated 10 November 2017 informing Sime Darby Berhad (SDB or the Company) of the issues that the Minority Shareholder Watchdog Group (MSWG) intends to raise at the Eleventh (11th) Annual General Meeting of the Company to be held on Monday, 20 November 2017 at 10.00 a.m.

As requested, enclosed, SDB's response to the matters raised by MSWG in the letter.

Thank you.

Yours faithfully,
SIME DARBY BERHAD

NORZILAH MEGAWATI ABDUL RAHMAN
Group Secretary

Strategic/Financial matters

1. **The Industrial Division recorded higher revenue of RM10.13 billion in FY2017 compared to RM9.95 billion recorded in FY2016. However, the Profit Before Interest & Tax (PBIT) had declined from RM341 million for FY2016 to a loss of RM4 million for FY2017.**

   (a) **One of the main items that had impacted the profitability of the Division in FY2017 was the impairment on the Bucyrus goodwill and distribution rights amounted to RM214 million.**

   What were the events that had triggered the goodwill impairment?

   The Group recognised an impairment loss of RM214 million in FY2017 due to lower value-in-use computation based on a 5-year discounted cash flow as compared to the carrying value of the Bucyrus's goodwill and distribution rights. The lower recoverable amount is primarily due to the downturn in the mining industry, particularly coal from 2014 and the slower recovery than expected in 2017.

   - Thermal coal prices declined from highs of around USD110 per MT in 2013 to below USD48 per MT in 2016, while coking coal prices of around USD150 per MT in 2013 dipped to below USD70 per MT in 2015.
   - Increase in Weighted Average Cost of Capital (WACC) in Papua New Guinea (PNG) from 13.25% to 15.25% due to political and economic instabilities.

   (b) **What was the contribution from the New Perkins dealership that was set up in the FY2017?**

   The New Perkins dealership contributed a total revenue of RM316 million and PBIT of RM17 million in FY2017.

2. **In May 2017, the Motors Division sold its Peugeot and Citroen distribution businesses in Australia and New Zealand.**

   What was the contribution from these brands in FY2017 and how would the divestment expected to impact the bottom line of the Motor Division moving forward?

   The decision to relinquish PSA Brands in Australia and New Zealand was in line with Sime Darby Motors' strategy to stay focus on the expansion of its retail car and commercial truck footprints on both sides of the Tasman. In FY2017, the Peugeot and Citroen distribution businesses have registered a loss of RM19 million, as compared to a loss of RM11 million in FY2016. Sime Darby Motors is confident that the strategic divestment of PSA distribution rights will impact the Division positively going forward as Sime Darby Motors will no longer recognise losses from these operations.

3. **The Profit Before Interests and Taxes (PBIT) for the Logistics Division declined by 38% from RM103 million in FY2016 to RM64 million in FY2017. The decline was partly due to higher operating expenses caused by the tighter environmental control by the authorities.**

   Would the operating expenses expected to accelerate further in FY2018 and what are the initiatives implemented to control the expenses?

   FY2016 included the gain on disposal of RM37 million from a Government grant and the disposal of 50% equity interest in Weifang Sime Darby Liquid Terminal Co. Ltd while FY2017 recorded the gain on disposal of RM10 million from the disposal of 50% equity interest in Weifang Sime Darby West Port Co Ltd to Shandong Chenming Paper Holdings Ltd. Excluding these gains, FY2016 and FY2017 PBIT amounted to RM66 million and RM54 million, respectively which represented a decline of 18% Year-on-Year (YoY) in FY2017 attributed to higher operating costs.

   The Division is committed to operational excellence and cost rationalisation to improve profitability of the business amidst challenging operating conditions. Costs related to environment agenda will be managed cautiously to ensure compliance and profitability are well balanced.

4. **The Company made an impairment loss of RM202 million in respect of the oil palm estates in Sime Darby Plantation (Liberia) ("SDP Liberia") due to the losses suffered by SDP Liberia for the financial ended 30 June 2017.**

   (a) **How the loss of SDP Liberia was for FY2017 compared with losses in the earlier years and would the loss expected to continue in the coming years?**

   Total losses incurred in FY 2016/2017 was USD74.2 million (equivalent to RM322 million), inclusive of impairment of assets of USD46.5 million (equivalent to RM202 million) and nursery stocks provision of RM12 million. At operational level, losses incurred of USD25.0 million (equivalent to RM108 million) was primarily due to the increase in mature area which led to higher depreciation and the lower revenue due to lower average fresh fruit bunch (FFB) yield achieved of 4 MT/ha in the early maturity from the young palms which was not sufficient to cover the depreciation and fixed costs.

   The operational losses in FY2017 were higher than those recorded in the previous two financial years: FY2016 of USD4.3 million (RM17.9 million) and FY2015 of USD3.0 million (RM10.3 million), due to the higher mature area thus higher depreciation charge. Mature oil palm area in Liberia as at 30 June 2017 was 9,305 ha compared to 1,567 ha as at 30 June 2016. The palms first reached maturity in FY2016. Nevertheless, the operational losses are expected to reduce in the coming year as the palms move to higher yielding age brackets hence higher FFB production, as well as benefits expected to materialise from initiatives being implemented in Liberia.

(b) What are the expected major challenges for the plantation operations in Liberia and how would the Company overcome or mitigate the impact from these challenges?

The major challenge faced in respect of plantation operations in Liberia has been improving the yields of the palms.

Although the rainfall in Liberia is high (it has an average annual rainfall of 3,530 mm which far exceeds the minimum requirement of 2,000 mm for oil palm per year), there is also a distinct dry spell of between 4 - 5 months which has an impact on the yields of the oil palms. Besides manuring, the key to getting better yields is to ensure good water management during the dry months. Therefore, the Company has embarked on a comprehensive cost effective irrigation programme to address this issue.

The wet months provide Liberia with significant amount of rainwater which is collected through water bodies, swamps and reservoirs for usage during the dry months. With a well-planned and well-managed innovative irrigation programme, the Company believes that it will help to mitigate the impact of the dry season and ultimately achieve higher yields.

(c) Would there be aggressive planting activities planned for the next 3 to 5 years?

At the moment, the main focus in Liberia is to improve the yields of the palms (as explained above).

Any further investments or expansion will be thoroughly assessed once the Company has addressed this issue.

(d) In July 2017, the Division obtained the ECOWAS certification in Nigeria which exempt its CPO & PK exports to West African countries from any export and import duties.

How would the exemption benefit the Division and what is the exemption period granted under the ECOWAS certification?

Most of the West African countries are net importers of palm oil and impose import duty tariffs for crude palm oil (CPO) which varies between the importing countries. For instance, Nigeria's import duty tariff is at 35% while Ghana is at 10%. Nigeria and Ghana are among the largest CPO importing counties in West Africa.

With the tax exemption certificates, Sime Darby Plantation Liberia is able to export its CPO and palm kernel to ECOWAS member states without incurring any import duty, thus making our CPO highly competitive against CPO imported from Indonesia and Malaysia. ECOWAS is made up of 15 member countries located in the Western African region including countries such as Liberia, Ivory Coast, Ghana and Nigeria. Since obtaining the ECOWAS certification, Sime Darby Plantation Liberia has been focusing its marketing efforts in Ghana and Nigeria. A number of potential customers in these two countries have shown keen interest in importing our palm products from Liberia.

Although, no timeframe is given for import duty exemption period, Sime Darby Plantation Liberia needs to renew the certificate every 6 months with zero cost.

5. **In FY2017, the Property Division recorded a Profit Before Interest and Tax (PBIT) of RM801 million, down 32.1% from RM1.18 billion in FY2016.**

FY2017 PBIT declined by 32.1% mainly attributable to lower profit recognised from the Pagoh Education Hub of RM6 million against RM225 million in FY2016 due to completion of the construction works, as well as lower gain on compulsory land acquisition of RM58 million against RM145 million in FY2016.

(a) What was the unbilled sale for the Division as at 30 June 2017?

The unbilled sales for Sime Darby Property amounted to RM1,766 million as at 30 June 2017 versus RM1,314 million as at 30 June 2016, an increase of 34% YoY.

(b) What are the projects scheduled to be launched in FY2018 and what is the total GDV of these projects?

The projects scheduled to be launched in FY2018 are detailed in the table below:

Township	Type of product	Land Area (acres)	Total units	Expected completion	Est. GDV (RM mil)
KLANG VALLEY					
KL East	Serviced apartment	6.7	254	2020	171
SJCC, Subang	Serviced apartment	2.2	361	2021	250
Elmina West	DSLH	32.9	392	2020	257
	DS shop office	2.0	11	2020	14
Elmina East	DS shop office	3.0	14	2019	26
Denai Alam	DSLH	24.0	228	2019	177
	DS shop office	2.0	17	2020	21
Serenia City	DSLH	24.3	302	2020	166
Putra Heights	Medium cost apartment	18.3	1,700	2021	355
Bukit Jelutong	Serviced apartment	7.5	TBC	TBC	343
NEGERI SEMBILAN					
Nilai Impian	DSLH	10	132	2020	62
JOHOR					
Bandar Universiti Pagoh	Commercial office	1	35	2020	33
	Commercial office	1	38	2021	36
	DSLH	3	112	2020	42
TOTAL			**3,596**		**1,953**

*DSLH – Double storey link house

(c) **Following the commencement of handover of Phase 1 of the Battersea Power Station Project, the Group recognised the share of profit from the Project amounted to RM140 million in FY2017.**

When would the handover expected to complete and what would be the expected revenue to be recognized in FY2018?

As at 30 June 2017, 338 units of Phase 1 have been handed over to purchasers. For the quarter ended 30 September 2017, the Group recognised a share of profit of RM87 million from the handover of 431 units. The remaining 93 units of Phase 1 is targeted to be handed over before the end of 2017.

Corporate Governance

We noted that the total cost incurred for the internal audit function during the FY2017 was RM28.5 million which was significantly lower than the amount of RM44.2 million incurred in FY2016.

What were the factors that had caused significant decline in the internal audit cost in FY2017?

The number reported in the Annual Report 2017 (Page 128) reflected the internal audit cost incurred for Malaysia of RM28.5 million. Total internal cost amounted to RM39.1 million (for Malaysia, Indonesia, China and Australia), which was a decline of 12% YoY, or about RM5.1 million.

The variance of around RM5 million is due to the continuous effort to "right-sizing" Group Corporate Assurance Teams since FY2014 and also towards improving the efficiency of the audit process via:

(i) changes in audit planning process with reduced audit man day reviews and refocus on key risk areas supported with additional / enhanced data analytics;
(ii) pro-active cost management by planning concurrent audit reviews in a single visit; and
(iii) continuous effort to leverage digital technology to reduce the infield site visit.

Although the overall cost incurred for the internal audit function reduced in FY2017, Group Corporate Assurance is committed in discharging its duties and upholding the standards of corporate governance in line with the Group Policies and Authorities.