Sri Trang Agro-Industry Public Company Limited

Management Discussion and Analysis, FY 2017
28th February 2018

STA : The World's Largest Green Rubber Company

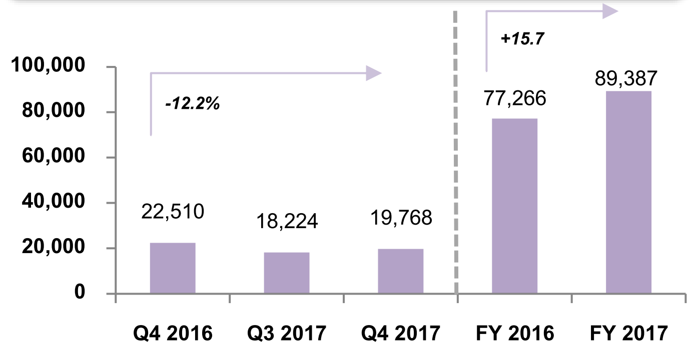
Financial Result Overview

In 2017, the natural rubber industry was buffeted by volatility and uncertainties such as the global economic and political situation, the appreciation of Thai Baht, unfavorable weather conditions, and a sharp increase in speculative activities in the futures markets in Tokyo, Shanghai and Singapore. Rubber prices started to move steadily higher from late 2016 and reached a three-year high at 231.6 cent/kg in mid February 2017. However, prices started to go down steadily since then and remained stable from late Q3 to Q4 2017. The average rubber price for 2017 was 164.7 cent/kg, which was higher than 138.4 cent/kg in 2016.

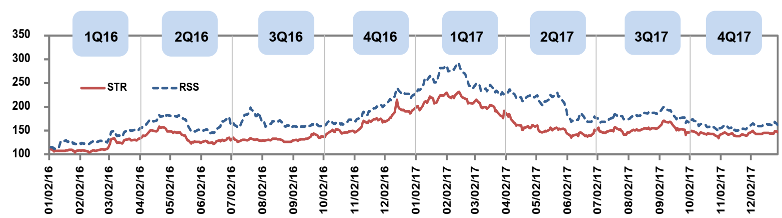
The year 2017 was a year of change as the Company completed the demerger of the associate and joint venture companies from our joint venture partner. As a result, examination gloves have become part of the Company's core businesses since 15 March 2017. By production capacity, the Company's glove business is Thailand's largest, and the world's leading, producer of gloves. This demonstrates the Company's commitment to operate as a fully integrated natural rubber company and reinforces the Company's position as the world's leading natural rubber company.

In 2017, the Company recorded a total revenue of Baht 89,387.0 million and sales volume of 1,323,823 tons of natural rubber products, representing 10% of global natural rubber consumption, and sales volume of 15,028 million pieces, representing approximately 8% of global glove consumption. However, the Company recorded a loss of Baht 1,437.1 million because of volatility in the natural rubber market.

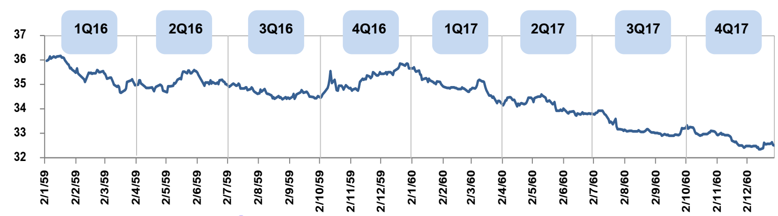
Revenue from Sales (THB million)



TSR20 and RSS3 Price Movement (US cent : Kg.)



Exchange rate of Thai Baht against US Dollar



Key Financial Ratios

	FY 2017	FY 2016
Gross profit margin	4.2%	7.0%
Adjusted gross profit margin*	4.8%	6.1%
EBITDA margin	1.8%	1.0%
Net profit margin	-1.6%	-1.0%
Current ratio (times)	1.10	0.97
Net D/E ratio (times)	1.47	1.73
Fixed asset turnover (times)	4.12	4.58
Inventory Turnover (days)	80.01	87.41
Collection Period (days)	28.27	25.79
Payment Period (days)	6.33	8.00

*Note : *Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities*

Statements of Comprehensive Income

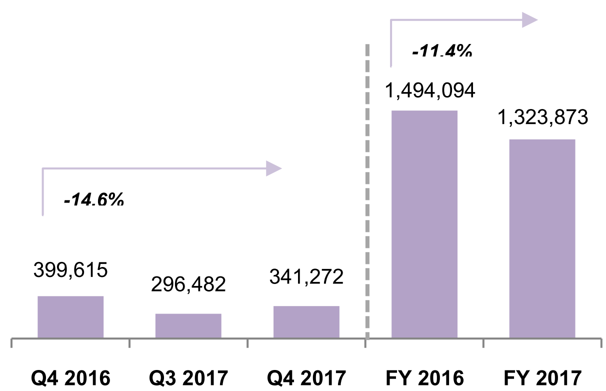
(Unit : THB million)	FY 2017	FY 2016	% YoY	Q4 2017	Q4 2016	% YoY
Revenue from sale of goods and services	**89,387.0**	**77,265.5**	**15.7%**	**19,768.4**	**22,510.5**	**-12.2%**
Cost of sales and services	(85,610.6)	(71,852.0)	19.1%	(18,393.8)	(20,889.1)	-11.9%
Gross profit (loss)	**3,776.4**	**5,413.5**	**-30.2%**	**1,374.5**	**1,621.3**	**-15.2%**
SG&A	(5,859.1)	(5,436.0)	7.8%	(1,332.6)	(1,952.5)	-31.7%
Other income	685.5	197.5	247.1%	398.0	59.0	574.1%
Gains (loss) on exchange rate, net	561.6	6.4	8680.6%	176.3	(35.5)	N/A
Other gains, net	147.4	(985.1)	N/A	112.4	(1,110.1)	N/A
Operating profit (loss)	**(331.8)**	**(803.7)**	**-58.7%**	**728.5**	**(1,417.8)**	N/A
Share of profit (loss) from investments in associates and joint	129.8	402.8	-67.8%	46.6	101.5	-54.1%
EBITDA	**1,650.4**	**794.3**	**107.8%**	**1,325.1**	**(983.1)**	**N/A**
EBIT	**(202.0)**	**(400.9)**	**-49.6%**	**775.1**	**(1,316.3)**	**N/A**
Finance costs (net)	(1,195.9)	(672.0)	78.0%	(293.3)	(320.1)	-8.4%
Income tax (expense)	(20.6)	283.2	N/A	25.5	321.1	-92.1%
Net Profit (loss) for the periods	**(1,418.5)**	**(789.7)**	**79.6%**	**507.2**	**(1,315.3)**	**N/A**
Attributed to Owners of the parent	(1,437.1)	(758.0)	89.6%	468.8	(1,303.1)	N/A
Attributed to non-controlling interests	18.5	(31.7)	N/A	38.5	(12.2)	N/A

Our revenue from sale of goods and services in 2017 was Baht 89,387.0 million, increased by 15.7% YoY. The revenue from NR business was Baht 79,121.7 million, expanded by 13.8% YoY which was driven by 28.4% growth of ASP in line with the movement of NR prices in the global market, despite 11.4% decine in sales volume of NR products. Moreover, the revenue from Gloves business was Baht 9,858.7 million, increased by 100.7% YoY.

In 2017, our sales volume of NR products amounted to 1,323,873 tons, dropped by 11.4% comparing to the previous year. However, we can maintain the global NR consumption market share at 10% in 2017. The decrease in sales volume was mainly resulted from a decline in sales to China and Singapore due to the negative sentiments of NR price movement rather than demand-supply fundamentals. This, nevertheless, has been partly compensated by an increase in domestic sales which accounted for 10.0% of our sale volume. China still remained our largest market destination at 45.5%, whereby other Asian markets accounted for 24.9% followed by USA and Europe markets at 5.8% and 4.3% respectively.

Since 15 March 2017 – 31 December 2017, our sales volume of Gloves products was 15,068 million pieces. Assuming STGT's revenue was consolidated since 1 January 2017, the gloves sales volume would be 16,344 million pieces, representing approximately 8% of global glove consumption.

Sales Volume (Tons)



Revenues by Product (THB million)

	FY 2017	FY 2017	% YoY	Q4 2017	Q4 2016	% YoY
TSR	**63,183.1**	**56,133.4**	**12.6%**	**13,508.8**	**16,630.2**	**-18.8%**
%	*70.7%*	*72.6%*		*68.3%*	*73.9%*	
RSS	**9,653.1**	**7,305.3**	**32.1%**	**1,955.2**	**2,056.8**	**-4.9%**
%	*10.8%*	*9.5%*		*9.9%*	*9.1%*	
LTX	**6,285.5**	**6,088.0**	**3.2%**	**1,561.5**	**1,920.1**	**-18.7%**
%	*7.0%*	*7.9%*		*7.9%*	*8.5%*	
Glove*	**9,858.7**	**4,913.0**	**100.7%**	**2,703.7**	**1,415.4**	**91.0%**
%	*11.0%*	*6.4%*		*13.7%*	*6.3%*	
Other**	**406.6**	**2825.8**	**-85.6%**	**39.1**	**487.9**	**-92.0%**
%	*0.5%*	*3.7%*		*0.2%*	*2.2%*	
Total	**89,387.0**	**77,265.5**	**15.7%**	**19,768.4**	**22,510.4**	**-12.2%**

*Note : *In March 2017, Sri Trang Gloves (Thailand) has become our subsidiary (previously it was an joint venture company). The revenues from examination glove products therefore have been recorded in the consolidated financial statement after 15 March 2017 onwards. **Comprises (i) the sale of rubber wood and wood packing products and (ii) the provision of certain services (such as logistics, research and development and information technology services) to our associates and a joint venture entity as well as other external third parties.*

Our gross profit in 2017 grew 30.2% YoY to Baht 3,776.4 million. The gross profit margin also dropped from 7.0% in 2016 to 4.2% in 2017. However, assuming there was no the allowance for inventory cost in excess of net realisable value of Baht 343.7 million and taking into account the realised gains from heading activities of Baht 201.6 million, our adjusted gross profit margin would have been declined to 4.8% from 6.1% in the previous year. This was due mainly to NR price volatility and an unusual gap between futures and physical markets.

Operating loss for the year 2017 recovered from the previous year, amounted to Baht (331.8) million in 2017 from (803.7) million in 2016. This has been partially offset by other income from insurance claims received from fire accident of PT Star Rubber in Indonesia since October 2016 amounting Baht 463 million as well we higher gains from exchange rate and gains from rubber derivative financial instruments recovered from loss in the previous year.

Nevertheless, in 2017, selling and administrative expenses (SG&A) increased by 7.8% from the previous year. The increase was due principally to higher cess[1] expenses and partially came from the increase in freight and transportation expenses as rising of oil prices in the global market and freight rate. Meanwhile, the increase of administrative expenses was primarily due to non-recurring items relevant to legal expenses and the demerger between the Company and Semperit amounting Baht 539 million.

[1]Cess Rate : Jan 16 – Nov 16 : 1.4 Baht/Kg.
Dec 16 – Jan 17 : 2 Baht/Kg.
Feb 17 – Mar 17 : 3 Baht/Kg.
Apr 17 – Jun 17 : 1.4 Baht/Kg.
Aug 17 - Present : 2 Baht/Kg.

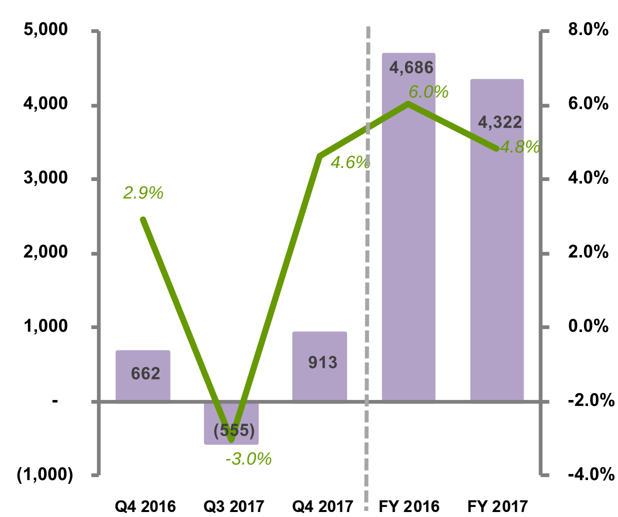
Share of profit from investments in associates and joint ventures in 2017 was Baht 129.8 million, decreased by 67.8% from the previous year mainly due to the changes in accounting recognition as a result of the demerger since 15 March 2017. However, the profit sharing from the hydraulic hoses joint ventures expanded slightly by 2.7% comparing to the previous year.

Net loss of Baht (1,437.1) million was recorded in 2017, increased from net loss of Baht (758.0) million in 2016. The decline in net profit was primarily as a result of an increase in financial costs from higher interest expenses. In March 2017, there was a borrowing loan to finance the share acquisition in the demerger in the amount of Baht 4,500 million, which has been fully repaid within a specified period by pushing down such loan in an amount of Baht 3,000 million to STGT at the end of 2017.

As of 31 December 2017, the Company recognised an allowance for inventory cost in excess of net realisable value for consolidated financial statements amounting to Baht 343.7 million compared with the reversal of allowance for inventory cost in excess of net realisable value amounting to Baht 453.7 million last year.

Adjusted GP and GPM*

(Unit : THB million)



Note: Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities*

Business Segmentation Analysis

Technically Specified Rubber (TSR)

Revenue from TSR, which accounted for 70.7% of total revenue, increased 12.6% YoY. The increase in revenue was attributed to a 28.7% increase in ASP, even though sales volume declined by 12.6%.

Due to the volatility in the rubber market, particularly during the first half of 2017, the rubber prices on the global markets did not reflect the movement of the raw material costs. The Company also had to decrease the production capacity for TSR in Q2 2017 in order to maintain a desirable level of gross profit margin, resulted in a 59.1% decline in gross profit from the previous year.

Ribbed Smoked Sheet (RSS)

Revenue from RSS, which accounted for 10.8% of total revenue, increased 32.1% YoY. The increase in revenue was attributable to a 31.9% increase in ASP, even though sales volume leveled off compared with the previous year due to the stable demand for RSS. However, due to the fact that the selling prices on the futures markets were abundantly higher than the Company's raw material costs, particularly during the floods in the South of Thailand in early 2017, gross profit for RSS increased 115.1% comparing to the previous year.

Concentrated Latex (LTX)

Revenue from concentrated latex, which accounted for 7.0% of total revenue, increased 3.2% YoY. The increase in revenue was attributable to an 18.1% increase in ASP. Sales volume, however, declined 12.5% YoY. The drop in sales volume resulted from a substantial decrease in sales volume during Q2 2017, when the floods in the South of Thailand in early 2017 cut down supply and the Company was unable to stock up in preparation for the wintering period.

Gross profit for concentrated latex decreased 23.3% YoY as a result of sharply declining rubber prices during the second half of 2017, which induced rubber farmers to produce cup lump or unsmoked rubber sheets rather than latex, as the former two products yield higher prices and can be kept longer.

Gloves

Revenue from gloves, which accounted for 11% of total revenue, increased 100.7% YoY. Sales volume during the period from 15 March 2017 to 31 December 2017 after the acquisition of STGT stands at 15,068 million pieces, while profit margin increased 158.7% comparing to the previous year.

Assuming STGT's revenue was consolidated since 1 January 2017, the gloves sales volume would be 16,344 million pieces, a 9.4% increase YoY. The increase in sales volume was attributed to STGT's extensive sale and marketing network, particularly in China, Asia and Europe. The versatility of rubber gloves, which are suitable for use in a variety of industries in addition the healthcare industry, also contributed to the increase in sales volume.

Industry Outlook

Unitt : 000'tons	2016	2017	2018F
NR Production	**12,451**	**13,210**	**13,462**
% change	*1.5%*	*6.1%*	*1.9%*
NR Consumption	**12,587**	**13,028**	**13,336**
% change	*3.7%*	*3.5%*	*2.4%*
NR Balance	**(136)**	**182**	**126**

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2017

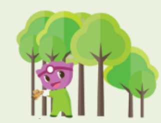
Demand for natural rubber has been steadily growing, with tire manufacturers which is the main consumers of NR accounting for 70% of overall demand. In 2017, the demand from tire manufacturers increased 3.4%, compared with a 3.9% increase in demand from other sectors, mainly from the glove industry and condom manufacturers. At the same time, rubber supply increased 6.1%, nearly twice the growth of demand. This can be attributed to the fact rubber trees planted during the period from 2010 to 2012, when rubber prices were much higher, could be harvested for the first time in 2017. Another factor that may have contributed to increased rubber supply is that some rubber farmers are inclined to increase the tapping frequency during a period of low prices to make up for lower income.

In 2018, the natural rubber industry is expected to grow in tandem with the global economic recovery. Oil prices, which have started to move up to higher levels since late 2017, are also a positive factor, as synthetic rubber, which can be used as a substitute for natural rubber, is derived from crude oil. Another positive factor is China's Qingdao stocks, which stood at 134,500 tons at the end of 2017, approximately 50,000 tons below the average of the previous seven years. In addition, demand for natural rubber from other sectors is poised to be growing steadily, with demand in 2018 forecast to increase 5.2%, mainly as a result of increased consumption in China and Malaysia.

Since mid 2017 until early 2018, the Thai government has announced various measures to alleviate low rubber prices, for instance, the establishment of Thai Rubber Fund Company Limited; the extension of credit to rubber farmers; the promotion of domestic rubber consumption; efforts to reduce supply such as the cutting down of rubber trees and the cessation of rubber tapping; and the inclusion of natural rubber in the list of commodities to be regulated by the Ministry of Commerce as a preventive measure for the Government to handle low rubber prices in the future.

Furthermore, in a joint effort by the major rubber producers - Thailand, Indonesia and Malaysia - to cut down rubber supply, the Thai government imposed a reduction quota of 350,000 tons of rubber exports for the three-month period from January 2018 to March 2018. Nevertheless, movements of rubber prices in the global markets are also influenced by other factors, such as speculative activities in the futures markets, including SICOM, TOCOM and the Shanghai Futures (SHFE). These factors may cause rubber prices to not always move in the same direction as the fundamentals.

Demand & Supply Balance



IRSG projected global NR demand in 2018 to be 13.34 million tons, increasing 2.4% YoY. The growth will mainly be driven by China, the world's largest consumer of natural rubber. As for NR supply, IRSG forecasted that NR production will grow at the rate of 1.9%, reaching 13.46 million tons in 2018. The largest sources of additional supply volumes will be the CAMAL* countries, Thailand, India and Vietnam. While supply from Thailand, the world's largest NR producing country, will be curtailed by the decrease in new planting and replanting of natural rubber.

From 2018 onwards, NR supply from new rubber trees is expected to grow at a slower rate as there have been much fewer planting activities since 2011, when prices started to drop to lower levels. Moreover, the prolonged period of low NR prices has induced rubber farmers to switch to other more profitable crops, delay planting/re-planting activities and reduce the tapping frequency. The extended period of low prices has also dampened farmer interest in the rubber industry. Meanwhile, NR demand continues to be healthy, supported by the solid growth of the tire industry. The IRSG therefore anticipates that NR supply surplus in 2018 will hover around 126,000 tons, dropping from 182,000 tons in 2017.

Note*: the CAMAL countries include Cambodia, Myanmar and Lao PDR.

Progress of our business growth plan throughout the supply chain

Upstream Business – 8,000-odd hectares of land already secured for rubber plantations

As of 31 December 2017, Sri Trang Group had obtained approximately 50,000 rai (8,000 hectares) of land suitable for the cultivation of rubber trees in 19 provinces of Thailand. 89% of the lot has already been planted with rubber trees and marginally out of which has been already started to provide yield since 2015. The majority of our rubber plantations are located in the northern and northeastern regions of Thailand. This shall be an advantage for our mid-stream business both for raw material procurement and NR production.

Having our own plantations will help us identify areas where we can potentially set up a new production facility. In the past we decided to set up new processing facilities in five provinces, namely Phitsanulok, Kalasin, Sakaeo, Sakon Nakhorn and Chiangrai following the development of our own rubber plantations in those areas. Moreover, this will increase our sourcing efficiency and make it easier for the Company to gather raw materials in reasonable price which would benefit us in terms of cost control and profitability.

Midstream Operations – moving toward "STA 20"

Going forward, we will continue with the expansion of our production capacity by setting up processing facilities with cutting-edge technology in new strategic locations, for example, in the north of Thailand. With our strong sales, R&D, quality control and CSR teams who are committed to working collaboratively to ensure customers' satisfaction, we are confident that we will be able to achieve a new record in sales volume. As a result, STA will enable to ultimately attain "STA 20," that is, to capture a market share of 20% of global NR consumption.

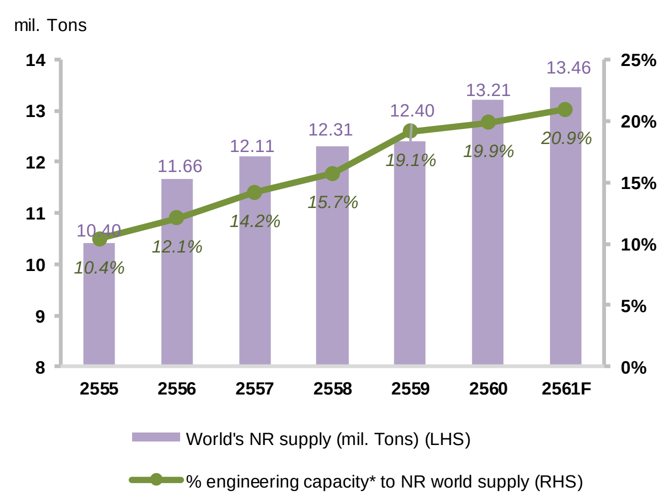
As of 31 December 2017, Sri Trang Group had a total 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one in Myanmar. During the year 2017, there were new factories in Chiangrai and Sakonnakorn. Our engineering capacity stood at 2.6 million tons per year at the end of 2017, decreasing from the previous target of 2.7 million tons per year due to the fact that capacity expansion of the facilities for concentrated latex was delayed until 2018 and that the newly built facilities were not yet operating fully. Despite that, our engineering capacity remains the highest in the industry.

Downstream Operations – aiming to rank among the world's top three glove producers

After the completed demerger of the joint venture and associate companies, our shareholding portion in Siam Sempermed Corporation (which is later renamed Sri Trang Gloves (Thailand) Co., Ltd ("STGT") since 16 March 2017) increased from 40.2% to 90.2% of the total shares. As a result of this, we consolidated STGT in the group financial statement since 15 March 2017 onwards.

We intend to capitalise on its competitive advantage over competitors, which is access to high-quality concentrated latex, which is the main raw material for producing gloves. STA will also continue to produce nitrile gloves to satisfy customer demands from all over the world. To that end, STA has increased its production capacity, which is expected to reach 18 billion pieces per annum within 2019 from the existing capacity of 14 billion pieces per annum at the end of 2017.

Proportion of Sri Trang Group Capacity to NR Global Supply



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