

STA : The World's Leading Fully Integrated Natural Rubber Company

Financial Result Overview

In 3Q18, the prevailing oversupply of natural rubber (NR) led NR prices to extend their decline, dropping 5.1% from 2Q18 and 13.5% from 3Q17. Prices of TSR20 on SICOM moved in the range between 130-135 cent/kg and the average price in 3Q18 was 132.9 cent/kg. Although NR production in Indonesia, Vietnam and India, which count among the major NR producing countries, was affected by unfavorable weather conditions and fungal diseases in rubber trees, the disruption and the higher oil prices on the global markets did not cause NR prices to move upward.

Our total revenue in 3Q18 was Baht 18,859.4 million, slightly down as a result of lower NR prices. Nonetheless, thanks to our selective selling strategy and effective raw material cost management, coupled with the steady growth of our gloves business, whose production capacity reached 17.2 billion pieces in 3Q18, we managed to achieve a gross profit margin of 10.4% and a net profit margin of 2.7%, and Baht 501.6 million in net profit.

Key Financial Ratios

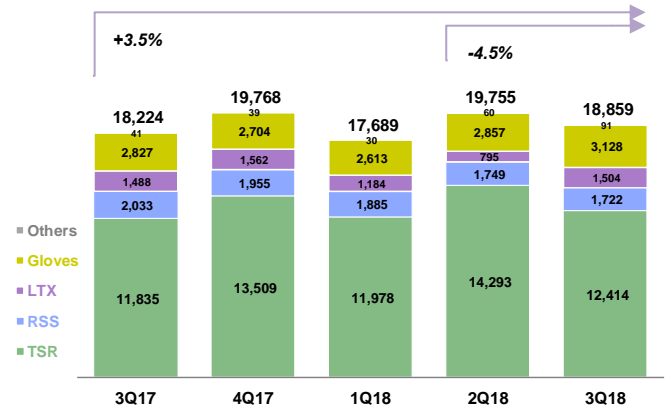
| | 3Q18 | 3Q17 | 2Q18 | FY 2017 |
|--------------------------------|-------|-------|-------|---------|
| Gross profit margin | 10.4% | 7.2% | 11.4% | 4.2% |
| Adjusted gross profit margin** | 10.7% | -3.0% | 13.4% | 4.6% |
| EBITDA margin | 8.3% | 6.7% | 8.0% | 1.8% |
| Net profit margin | 2.7% | 0.9% | 3.0% | -1.6% |
| Current ratio (times) | 1.17 | 0.92 | 1.18 | 1.10 |
| Net D/E ratio (times) | 1.06 | 1.94 | 1.07 | 1.47 |
| Fixed asset turnover (times)* | 2.86 | 4.40 | 2.85 | 4.12 |
| Inventory Turnover (days)* | 76.67 | 81.63 | 77.16 | 80.01 |
| Collection Period (days)* | 28.33 | 27.51 | 29.18 | 28.27 |
| Payment Period (days)* | 8.02 | 5.93 | 6.99 | 6.33 |

Note:

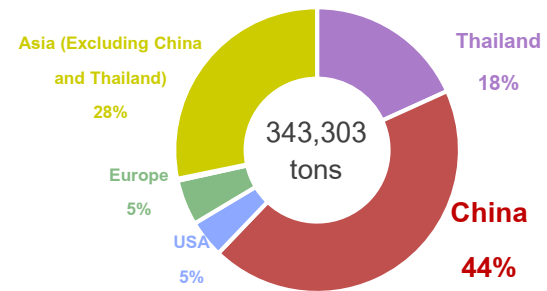
* Annualised

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

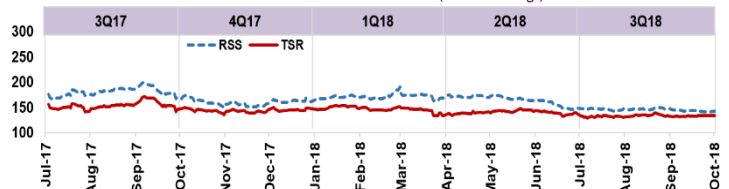
Revenues by Product (THB million)



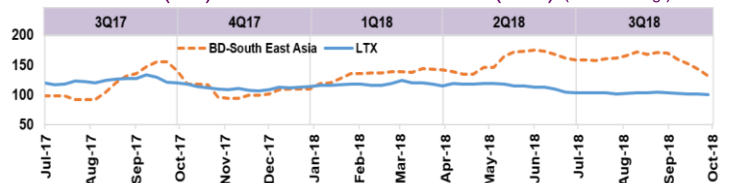
Sales Volume by Country (3Q18)



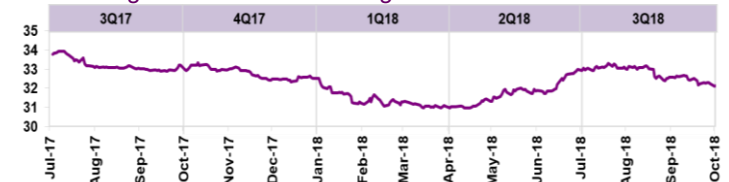
TSR20 and RSS3 Price Movement (US cent : Kg.)



Butadiene (BD) and Concentrated Latex (LTX) (US cent : Kg.)



Exchange Rate of Thai Baht against US Dollar



Statements of Comprehensive Income

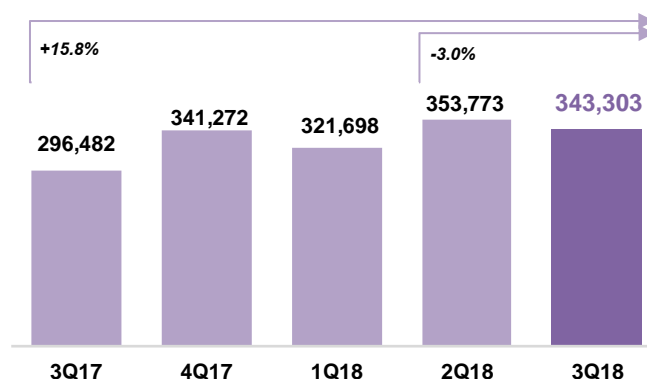
| (Unit : THB million) | 3Q18 | 3Q17 | %YoY | 2Q18 | %QOQ |
|---|------------|------------|--------|------------|--------|
| Revenue from sales of goods and services | 18,859.4 | 18,224.1 | 3.5% | 19,754.8 | -4.5% |
| Cost of sales and services | (16,889.6) | (16,910.3) | -0.1% | (17,494.2) | -3.5% |
| Gross profit (loss) | 1,969.8 | 1,313.8 | 49.9% | 2,260.6 | -12.9% |
| SG&A | (1,332.0) | (1,123.8) | 18.5% | (1,338.1) | -0.5% |
| Other income | 31.8 | 44.1 | -27.8% | 43.0 | -26.0% |
| Gains (loss) on exchange rate, net | 7.2 | 93.4 | -92.3% | (312.6) | N/A |
| Other gains, net | 256.6 | 253.1 | 1.4% | 289.2 | -11.3% |
| Operating profit (loss) | 933.9 | 628.9 | 48.5% | 943.4 | -1.0% |
| Share of profit (loss) from investments in JV | 60.0 | 82.6 | -27.3% | 57.0 | 5.3% |
| EBITDA | 1,562.4 | 1,220.1 | 28.0% | 1,581.0 | -1.2% |
| EBIT | 993.9 | 711.5 | 39.7% | 1,000.4 | -0.6% |
| Finance costs (net) | (327.3) | (328.5) | -0.4% | (355.6) | -8.0% |
| Income tax (expense) | (141.1) | (211.4) | -33.3% | (37.9) | 272.6% |
| Net Profit (loss) for the periods | 525.6 | 171.6 | 206.2% | 607.0 | -13.4% |
| Attributed to Owners of the parent | 501.6 | 166.7 | 201.0% | 591.9 | -15.3% |
| Attributed to non-controlling interests | 24.0 | 5.0 | 383.2% | 15.0 | 59.9% |

Total revenue from products and services in 3Q18 was Baht 18,859.4 million, growing 3.5% YoY but down 4.5% QoQ. Revenue from NR products went up 1.9% YoY to Baht 15,640.4 million on the strength of a substantial YoY increase in sales volume across all NR products. The growth in sales volume helped to offset the fall in average selling price, which dropped in tandem with NR prices on the global markets. But revenue from NR products fell 4.5% QoQ as a result of a 4.3% decline in average selling price and a 3.0% drop in sales volume. Revenue from gloves was Baht 3,127.7 million, up 10.6% YoY and 9.5% QoQ. The YoY increase in revenue can be attributed to the average selling price that rose 9.5% because selling prices for nitrile gloves went up in tandem with prices of synthetic rubber. Sales volume for gloves slightly grew 1.0% YoY. The QoQ growth in revenue was driven by a 12.7% increase in sales volume on the back production capacity expansion and marketing efforts in previously untapped markets, even though the average selling price fell 2.8% alongside prices of concentrated latex. Revenue from other products and services came in at Baht 91.4 million.

Sales volume for NR products was 343,303 tons, up 15.8% YoY and but down 3.0% QoQ. The YoY increase in sales volume resulted from a substantial growth in sales volume across all NR products, particularly RSS and LTX. The QoQ drop in sales volume stemmed from a decline in export volume to China as a result of our selective selling strategy, even though sales volume for the domestic market and export volume to other

countries increased. Export volume to India, Vietnam and Indonesia substantially rose YoY and QoQ as the domestic production of NR in these countries, which serve as a production base for a fair number of tire manufacturers, was disrupted by unfavorable weather conditions and fungal diseases in rubber trees. We were able to capitalize on the NR supply shortage in these markets to satisfy the demand of our existing customers. Despite the drop in export volume, China still remained our largest market, accounting for 43.9% of total sales volume. Other Asian markets accounted for 28.2% of total sales volume, followed by the European and the US markets at 5.1% and 4.3% of total sales volume, respectively. Sales volume for the domestic market accounted for 18.2% of total sales volume.

NR Sales Volume (tons)



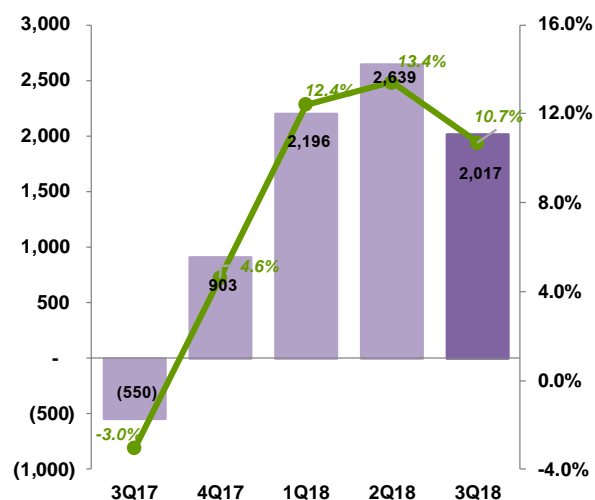
Revenue by Product (THB million)

| | 3Q18 | 3Q17 | % YoY | 2Q18 | % QoQ |
|--------------|-----------------|-----------------|-------------|-----------------|--------------|
| TSR | 12,413.9 | 11,835.0 | 4.9% | 14,293.2 | -13.1% |
| % | 65.8% | 64.9% | | 72.3% | |
| Gloves | 3,127.7 | 2,827.1 | 10.6% | 2,857.1 | 9.5% |
| % | 16.6% | 15.5% | | 14.5% | |
| RSS | 1,722.4 | 2,032.6 | -15.3% | 1,749.5 | -1.5% |
| % | 9.1% | 11.2% | | 8.9% | |
| LTX | 1,504.1 | 1,488.3 | 1.1% | 794.5 | 89.3% |
| % | 8.0% | 8.2% | | 4.0% | |
| Other* | 91.4 | 41.1 | 122.0% | 60.4 | 51.1% |
| % | 0.5% | 0.2% | | 0.3% | |
| Total | 18,859.4 | 18,224.1 | 3.5% | 19,754.8 | -4.5% |

Note*: Comprised revenue from (i) the sale of rubber wood and wood packing product 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 third parties.

Gross profit in 3Q18 was Baht 1,969.8 million, increasing Baht 656.1 million or 49.9% YoY on the strength of improved raw material cost management compared with 3Q17, a period of volatile NR prices. But gross profit fell Baht 290.8 million or 12.9% from 2Q18. The QoQ drop in gross profit can be attributed to the higher cost of cup lump, which serves as raw material in TSR production, moreover the raw material costs for our production facilities in Indonesia also went up due to a shortage of NR supply, which was cut down by fungal diseases in rubber trees. Prices of synthetic rubber, which went up in tandem with oil prices on the global markets, also contributed to the higher overall raw material costs for gloves production. Despite all this, we managed to achieve a gross profit margin of 10.4%. Taking account of the reduction of inventory cost to net realisable value in the amount of Baht 69.0 million and realised losses from hedging transactions of Baht 22.0 million, our adjusted gross profit margin for 3Q18 would have been 10.7%, down from 13.4% in 2Q18 but an improvement over -3.0% in 3Q17.

Adjusted GP and GPM* (Unit : THB million)



Note:

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

Operating profit in 3Q18 was Baht 933.9 million, increasing Baht 305.0 million from 3Q17. Operating profit margin was 5.0%, up from 3.5% in 3Q17. The YoY increase in operating profit can be attributed to our effective raw material cost management of NR business and the improved profitability of our Gloves business, despite lower gains from currency exchange. In spite of a drop of Baht 290.8 million in gross profit from 2Q18, our operating profit in 3Q18 only slightly went down by Baht 9.5 million from 2Q18. This can be attributed to gains from currency exchange that were Baht 319.8 million higher, while gains from hedging transactions went down Baht 32.6 million from 2Q18 to Baht 256.6 million, in line with lower sales volume.

Administrative and selling expenses rose 18.5% from 3Q17 but were slightly down 0.5% from 2Q18. The YoY increase in administrative and selling expenses can be attributed to higher selling expenses as a result of both higher ccess expense and shipping and logistic costs that went up in tandem with higher sales volume, while administrative expenses declined. The QoQ decrease resulted from selling expenses that went down alongside lower sales volume and from improved management of selling expenses. Administrative expenses rose QoQ as a result of non-recurring expenses associated with the amalgamation process in our glove business. Other income for 3Q18 came in at Baht 31.8 million.

Share of profits from investments in associates and joint ventures in 3Q18 was Baht 60.0 million, up 5.3% from 2Q18. However, share of profits dropped 27.3% from 3Q17 as a result of lower share of profits from our NR joint ventures.

Net profit in 3Q18 was Baht 501.6 million, up 201.0% from 3Q17. The increase in net profit was driven by our selective selling strategy and effective raw material cost management in our NR business, which led to improved profitability, coupled with the consistent profitability of our Gloves business. EBIT remained steady from 2Q18 and rose 39.7% from 3Q17. Finance costs were down 0.4% YoY and 8.0% QoQ because of lower interest expenses as a result of a decrease in short-term borrowings, in line lower sales volume and raw material costs. However, net profit fell 15.3% QoQ because of an increase of Baht 103.2 million in deferred income taxes.



Business Segmentation Analysis



Technically Specified Rubber (TSR)

Revenue from TSR, which accounted for 65.8% of total revenue, rose 4.9% YoY but dropped 13.1% QoQ.

The YoY growth in revenue was primarily driven by a 17.6% increase in sales volume on the back of increased export volume, while the average selling price fell 10.8% alongside NR prices on the global markets. The QoQ drop in revenue resulted from an 11.7% fall in sales volume as a result of our selective selling strategy, which prioritizes profitability over sales volume, while the average selling price was slightly down 1.6%.

Gross profit margin for TSR grew considerably from 3Q17 but slightly dropped from 2Q18.



Gloves

Revenue from gloves, which accounted for 16.6% of total revenue, rose 10.6% YoY and 9.5% QoQ.

The YoY growth in revenue was driven by a 9.5% increase in average selling price because selling prices for nitrile gloves went up in tandem with oil prices on the global markets, while sales volume slightly rose 1.0%. The QoQ growth in revenue resulted from a 12.7% increase in sales volume on the strength of increased consumption from Europe, the US, China and the emerging markets, even though the average selling price went down 2.8% as a result of lower prices for concentrated latex.

Gross profit margin for gloves grew substantially compared with 3Q17 and was only slightly down from 2Q18.



Ribbed Smoked Sheet (RSS)

Revenue from RSS, which accounted for 9.1% of total revenue, dropped 15.3% YoY and 1.5% QoQ.

The YoY decrease in revenue was caused by an 18.3% decline in average selling price, which fell in tandem with NR prices on the global markets, while sales volume slightly rose 3.7% on the back of an increase in both export volume and domestic sales. The QoQ decrease in revenue resulted from a 6.3% decline in average selling price, even though sales volume grew 5.1% on the back of increased domestic consumption from tire manufacturers.

Gross profit margin for RSS was slightly down from 3Q17 but remained stable compared with 2Q18.



Concentrated Latex (LTX)

Revenue from LTX, which accounted for 8.0% of total revenue, rose 1.1% YoY and 89.3% QoQ.

The YoY growth in revenue was driven by a 15.4% increase in sales volume, even though the average selling price fell 12.5%. The substantial QoQ growth in revenue resulted from a 102.4% increase in sales volume, which can be attributed to the fact that 3Q18 coincided with a period when NR production resumed following the wintering season in 2Q18, when supply of NR, especially concentrated latex, was scarce. In 3Q18, we were able to obtain sufficient NR supply to satisfy the demand from glove producers and manufacturers of elastics and latex pillows, resulting in increased export volume and domestic sales. The average selling price dropped 3.7% QoQ alongside NR prices on the global markets.

Gross profit margin for LTX rose substantially compared with 3Q17 and continued its consistent growth from 2Q18.



Industry Outlook

In 3Q18, NR prices continued their steady decline and were hovering near their lows in 2009. The average price of TSR20 on SICOM in 3Q18 was 132.9 cent/kg, down 5.1% from 2Q18. NR prices continued to be weighed down by the lingering oversupply, which resulted from rubber trees planted during the period from 2010 to 2012 entering their productive phase. Even though global NR supply was affected by fungal diseases in rubber trees on the Sumatra Island, Indonesia's major NR producing area*, and the severe flooding in Vietnam and the Kerala state, India's largest NR producing area**, the disruption did not cause NR prices on the global markets to move up.

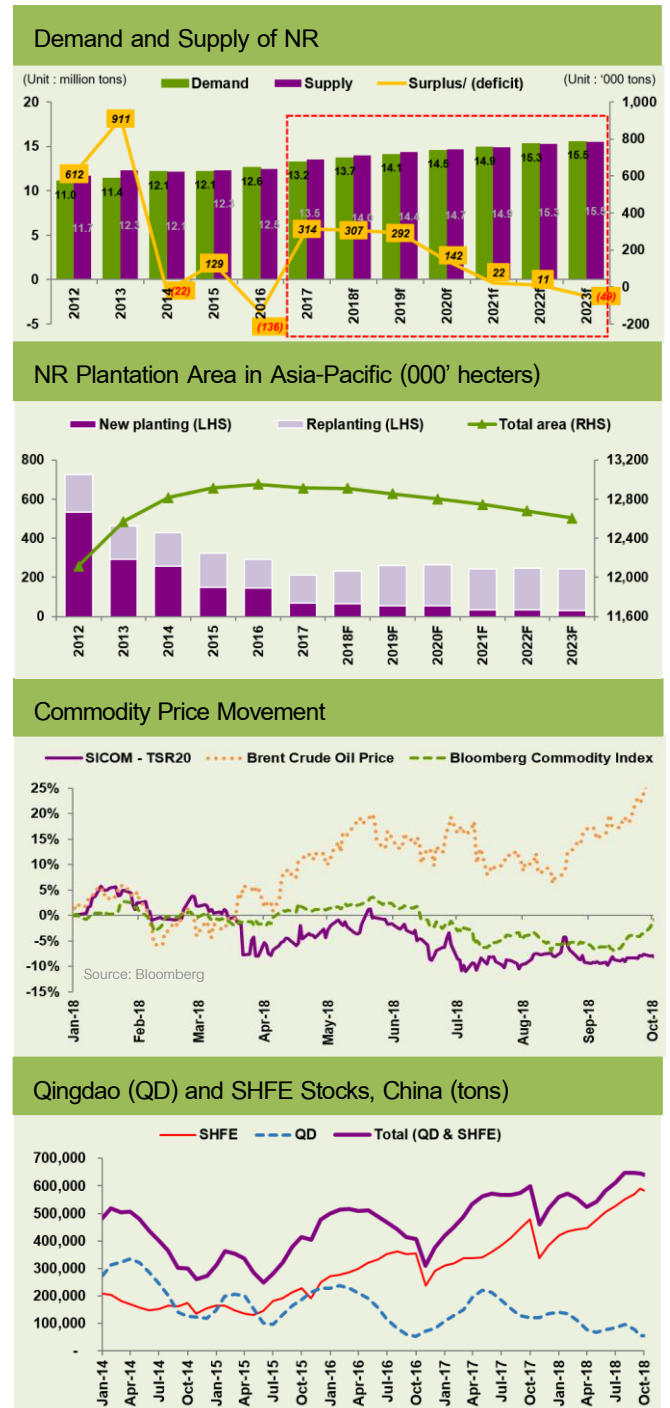
The beginning of the peak season of NR production in Thailand, which lasts from November until February each year, could compound the oversupply situation. The increase in natural rubber and compound rubber inventory in Qingdao (QD) and in the Shanghai Futures Exchange (SHFE) rubber stocks, which went up by 66,000 tons since the end of 3Q18 to 746,000 tons in the mid-October, could exert downward pressure on NR prices in 4Q18.

What remains to be seen is whether the government will come up with any new policy to supplement the existing ones to cut down NR supply area of rubber plantations by providing subsidy to farmers who cut down rubber trees and to stimulate NR consumption such as providing credit to businesses that process NR etc. On the demand side, the ongoing trade war between China and the US continues to weigh on the market, as evidenced by the move by Chinese tire manufacturers to shift production to Thailand and other ASEAN countries, which could lead to lower NR consumption in China. Nevertheless, NR demand continues to experience robust growth on the back of consumption in tire manufacturing, glove production and rubber thread manufacturing. The demand from glove producers and rubber thread manufacturers especially is leading to solid growth in concentrated latex consumption.

Note :

*Indonesia is the world's second largest NR producer next to Thailand, with production accounting for 25.7% of the global NR production in 2018.

**India is the world's fifth largest NR producer, with production accounting for 4.8% of the global NR production.



Progress of Our Business Growth Plan throughout the Supply Chain

Upstream Business – approximately 50,000 rai of rubber plantations

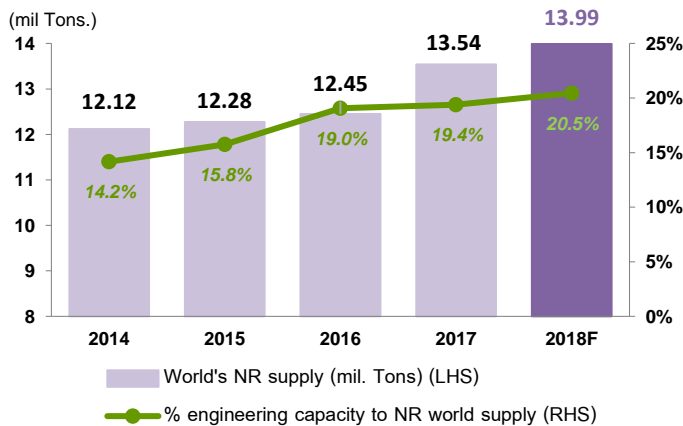
As of 30 September 2018, we owned approximately 50,000 rai of rubber plantations in 19 provinces of Thailand, with the majority in the North and Northeast. 89% of the plantations have been planted with rubber trees and some portions have been providing yields since 2015. We estimate that, in 2018, rubber trees that are ready to be tapped will account for 3% of total rubber trees, a development that would benefit our core business in the midstream.

Midstream Business – moving toward “STA 20”

Since 3Q17, we have implemented a *selective selling strategy*, which prioritizes profitability over sales volume, to preserve profit margin during a period of low NR prices. In the long run, we are focused on maintaining relationships with our existing customers in addition to cultivating new ones, such as tire manufactures from overseas who have set up production base in Thailand and consumers of concentrated latex worldwide, with an eye toward achieving “STA 20”, i.e. gaining a market share of 20% of “*global NR consumption*” (In 2017, our market share was 10% of global NR consumption.).

We reached our capacity expansion target for 2018 as of 30 September 2018, with a total production capacity of 2.86 million tons per annum, up 240,000 tons from 2017. The additional capacity came from the two production facilities in Chiang Rai and Sakonnakorn that were constructed last year and became fully operational, and also from the addition of production lines at our latex processing plants in Surat Thani, Songkhla, and Ubon Ratchathani to support the growth of our glove business and to keep pace with steadily growing demand for concentrated latex.

Proportion of Sri Trang Group Capacity to NR Global Supply



Downstream Business – aiming to be among the world’s top three examination and industrial glove producers

We intend to capitalize on our competitive advantage over competitors in the production of latex gloves, which is our ready access to quality concentrated latex. We will also continue to produce nitrile gloves to satisfy customer demand from around the world for both medical and lifestyle uses. In 2017, we had a market share of 8% of global glove consumption.

As of 30 September 2018, we achieved our capacity expansion target for 2018 of 17.2 billion pieces of gloves per annum, up 3.2 billion pieces or 23% from our production capacity at the end of 2017. *We are also in the process of amalgamating the businesses Sri Trang Gloves (Thailand) Ltd. (“STGT”) and Thaikong Co., Ltd. (“TK”),* which is a glove producer based in Trang with 4 billion pieces of gloves per annum in production capacity. The amalgamation is expected to be completed by 1 April 2019 and will increase our total production capacity to 21 billion pieces of gloves per annum. We intend to keep expanding our production capacity to keep pace with the global demand for gloves, which is growing 8-10% annually*. Our eventual target is to rank among the world’s top three glove producers in the foreseeable future.

Note: *source MARGMA Industry Brief 2018 on the Rubber Glove Industry

Investor Relations Department
Tel. +662 207 4500 ext. 1402
Email. IR@sritranggroup.com

