

21 February, 2019

Subject: Management Discussion & Analysis (MD&A) for the year 2018  
 Attention: The President  
 The Stock Exchange of Thailand

The Company wishes to present the Management Discussion & Analysis (MD&A) on the operating and financial status for the year 2018. The MD&A would enable the investors to better understand the Company and its subsidiaries' 2018 audited financial statements.

**An Analysis of Performance** \*

Analysis of Income

The Company and its subsidiaries recorded the total revenue of 20,171 MTHB of which 19,946 MTHB earned from sales revenue. The sales revenue increased by 665 MTHB or 3% comparing to the year 2017. The increment mostly derived from improved Epichlorohydrin (“ECH”) and Caustic Soda selling price due to limited export from China. The overall sales volume decreased, except for ECH, as a consequence of major turnaround in Q2’ 18. The share of domestic and export sales have no significant change comparing with the previous year.

| Sales Revenues                         | 2018          |              | 2017          |              |
|--|---------------|--------------|---------------|--------------|
|  | MTHB          | %            | MTHB          | %            |
| <b>Domestic Sales</b>                  |               |              |               |              |
| 1. PVC Resins                          | 5,375         | 26.9         | 5,418         | 28.1         |
| 2. Caustic Soda                        | 3,920         | 19.7         | 4,017         | 20.8         |
| 3. VCM                                 | 1,492         | 7.5          | 1,667         | 8.6          |
| 4. ECH                                 | 905           | 4.5          | 649           | 3.4          |
| 5. Others                              | 102           | 0.5          | 79            | 0.4          |
| <b>Total Domestic Sales</b>            | <b>11,795</b> | <b>59.1</b>  | <b>11,830</b> | <b>61.4</b>  |
| <b>Export Sales</b>                    |               |              |               |              |
| 1. PVC Resins                          | 3,606         | 18.1         | 4,440         | 23.0         |
| 2. Caustic Soda                        | 102           | 0.5          | 65            | 0.3          |
| 3. VCM                                 | -             | -            | -             | -            |
| 4. ECH                                 | 4,444         | 22.3         | 2,947         | 15.3         |
| <b>Total Export Sales</b>              | <b>8,152</b>  | <b>40.9</b>  | <b>7,451</b>  | <b>38.6</b>  |
| <b>Domestic and Export Sales</b>       |               |              |               |              |
| 1. PVC Resins                          | 8,981         | 45.0         | 9,857         | 51.1         |
| 2. Caustic Soda                        | 4,022         | 20.2         | 4,082         | 21.2         |
| 3. VCM                                 | 1,492         | 7.5          | 1,667         | 8.6          |
| 4. ECH                                 | 5,348         | 26.8         | 3,596         | 18.6         |
| 5. Others                              | 102           | 0.5          | 79            | 0.4          |
| <b>Total Domestic and Export Sales</b> | <b>19,946</b> | <b>100.0</b> | <b>19,282</b> | <b>100.0</b> |

\* Note Please find further information in the consolidated financial statements.

### Analysis of Costs and Expenses

1. In 2018, Cost of sales was 15,649 MTHB, increased by 209 MTHB comparing to 2017 or 1% as a result of greater main raw material prices despite of lower overall sales volume. Higher average Ethylene price came mainly from crude oil price rebound in 2018. And even with lower pressure on Glycerin price from growing market supply in the second half of 2018, full year average Glycerin price remained high following the market price trend since 2017. Additionally, the increase of electricity cost was also added to higher cost of sales of this year.

In spite of rise of main raw material prices and decline in overall sales volume, the Company and its subsidiaries brought 1.6% growth of Gross profit margin versus 2017 by the strong contribution of Epicerol® business.

2. In 2018, distribution costs, administrative expenses, and doubtful debt expenses was 1,253 MTHB, decreased by 342 MTHB or 21% from 2017. This decrement was mainly from the loss on written-off and disposal of plant and equipments and intangible assets of Solvay Biochemicals (Taixing) Limited (“SBT”) in 2017.
3. In 2018, the Company and its subsidiaries recorded loss on dilution on investment in Pimai Salt Company Limited amounting to 32 MB from the reduction in the Company and its subsidiaries’ ownership interest from 28.49% to 20.56% following the increasing of the share capital to its major shareholder.
4. In November 2018, the Company and its subsidiaries completed the dissolution of SBT and then realized foreign currency differences on dissolution of SBT amounting to 89 MB from other comprehensive income to the profit for the year.

\* Note Please find further information in the consolidated financial statements.

## **An Analysis of Financial Status** \*

### Analysis of Assets

As at 31 December 2018, the Company and its subsidiaries had 21,596 MTHB of the total assets, which was increased 1,717 MTHB or 9% from previous year.

Details of the major changes were following:

1. As at 31 December 2018, the Company and its subsidiaries had net cash and cash equivalents amounting to 7,540 MTHB, increasing 2,327 MTHB or 45% comparing to 5,213 MTHB at the end of 2017. (see further information in analysis of cash flow)
2. The balance of trade receivables at the end of 2018 was 2,612 MTHB, slightly increasing by 7 MTHB comparing to 2,605 MTHB at the end of 2017. Most of the receivables were not yet due. For the corresponding bad debt, the Company and its subsidiaries had already set sufficient provision.
3. The Company and its subsidiaries had net inventories at the end of 2018 amounting to 1,374 MTHB, increasing from 1,113 MTHB of the year 2017.
4. At the end of 2018, the Company and its subsidiaries had net property, plant and equipment, and intangible assets amounting to 9,328 MTHB or decreasing by 635 MTHB comparing to 9,962 MTHB at the end of 2017, mainly from normal depreciation offset with asset acquisitions during major turnaround in 2018.
5. The balance of deferred tax assets at the end of 2018 was 102 MTHB, decreasing by 204 MTHB comparing to 306 MTHB at the end of 2017 following the reversal of deferred tax assets mainly from loss carried forward in 2018 amounting to 200 MTHB.

### Analysis of Liabilities

The Company and its subsidiaries had total liabilities at the end of 2018 amounting to 1,828 MTHB which decreased by 183 MTHB or 9% comparing to 2017. The major change of the liabilities was from the Company and its subsidiaries' normal operating activities.

\* Note Please find further information in the consolidated financial statements.

### Analysis of Shareholders' Equity

As at 31 December 2018, the shareholders' equity was 19,768 MTHB which increased by 1,900 MTHB or 11% comparing to 17,868 MTHB at the end of 2017. The increment was mainly from the net profit of 2018 offset with dividend paid to its shareholders.

### Analysis of Cash Flow

As of 31 December 2018 the Company and its subsidiaries' Cash Flow Statement presented 7,540 MTHB of cash and cash equivalents. The sources and uses of funds were following:

1. In 2018, the net cash flow from operating activities was 3,960 MTHB which increased by 551 MTHB or 16% comparing to 2017 from Company and its subsidiaries' better operating results.
2. In 2018, the net cash flow used in investing activities was 551 MTHB, increased by 330 MTHB comparing to its amount of 221 MTHB in 2017 as a result of more machinery and equipment acquired during major turnaround in 2018.
3. In 2018, the net cash flow used in financing activities amounting to 1,074 MTHB, consisting mainly of dividends paid to shareholders for 1,067 MTHB.

|   |              |      |
|---|--------------|------|
| Net cash flow from operating activities     | 3,960        | MTHB |
| Net cash flow used in investing activities  | (551)        | MTHB |
| Net cash flows used in financing activities | (1,074)      | MTHB |
| Translation adjustments of its subsidiary   | <u>(8)</u>   | MTHB |
| Net increase in cash and cash equivalents   | <u>2,327</u> | MTHB |

\* Note Please find further information in the consolidated financial statements.

## Financial Ratios

|                      | <b><u>2018</u></b> | <b><u>2017</u></b> |
|----------------------|--------------------|--------------------|
| Gross profit margin  | 21.5%              | 19.9%              |
| Net profit margin    | 15.2%              | 11.6%              |
| Debt to Equity ratio | 0.09               | 0.11               |
| Earnings per share   | 2.58               | 1.90               |
| ROA                  | 15.8%              | 12.3%              |
| ROE                  | 16.3%              | 13.2%              |

Gross Profit margin = Gross Profit (Total Sales – Costs of Sales) to Sales

Net Profit margin = Net Profit to Total Revenues

Debt to Equity = Total Liabilities to Total Equity

Return on Assets (ROA) = Profit before financial costs and income tax to average Total Assets

Return on Equity (ROE) = Net Profit to average Total Equity

Yours faithfully,

Mr. Hiroaki Sano  
Managing Director

\* Note Please find further information in the consolidated financial statements.