

13. Financial Statements

Summary of Auditor's Report

Auditor's Office: KPMG Phoomchai Audit Ltd.

Names of Auditors:

Financial Statements	Names of Auditors
Consolidated financial statements for the year ended 31 December 2016	Mr. Winid Silamongkol Certified Public Accountant Registration No. 3378
Consolidated financial statements for the year ended 31 December 2015	Mr. Winid Silamongkol Certified Public Accountant Registration No. 3378
Consolidated financial statements for the year ended 31 December 2014	Mr. Winid Silamongkol Certified Public Accountant Registration No. 3378

From the audits carried out upon the Thai Standards on Auditing, the auditors formed the opinion that the consolidated financial statements of the Siam Cement Public Company Limited and its subsidiaries present fairly, in all material respects, the consolidated financial position as at December 31, 2014 - December 31, 2016, the consolidated financial performance and consolidated cash flows for the years then ended in accordance with Thai Financial Reporting Standards.

Consolidated Financial Statements and Financial Ratios

of

The Siam Cement Public Company Limited and its Subsidiaries

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016, 2015 AND 2014

(Million Baht)

Assets	2016	%	2015	%	2014	%
Current assets						
Cash and cash equivalents	27,709	5.1	16,078	3.2	19,031	4.1
Temporary investments	13,089	2.4	18,510	3.6	8,023	1.7
Trade and other receivables	48,329	9.0	54,294	10.6	51,841	11.1
Short-term loans	167	0.0	126	0.0	116	0.0
Inventories	53,335	9.9	52,898	10.4	52,747	11.3
Other current assets	8,043	1.5	6,490	1.3	5,970	1.3
Assets classified as held for sale	5,319	1.0	-	-	270	0.1
Total current assets	155,991	28.9	148,396	29.1	137,998	29.6
Non-current assets						
Available-for-sale investments	6,348	1.2	9,316	1.8	8,385	1.8
Investments in associates	90,811	16.8	86,076	16.9	77,310	16.6
Investments in joint ventures	4,687	0.9	4,814	0.9	5,039	1.1
Other long-term investments	2,866	0.5	3,066	0.6	3,078	0.7
Long-term loans	124	0.0	162	0.0	153	0.0
Investment properties	1,307	0.3	1,236	0.2	1,636	0.4
Property, plant and equipment	245,183	45.4	230,932	45.3	205,473	44.1
Goodwill	11,658	2.2	11,524	2.3	10,799	2.3
Intangible assets	8,762	1.6	7,667	1.5	7,169	1.5
Deferred tax assets	5,918	1.1	2,767	0.6	4,261	0.9
Other non-current assets	6,033	1.1	4,025	0.8	4,522	1.0
Total non-current assets	383,697	71.1	361,585	70.9	327,825	70.4
Total assets	539,688	100.0	509,981	100.0	465,823	100.0

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016, 2015 AND 2014

(Million Baht)

Liabilities and shareholders' equity	2016	%	2015	%	2014	%
Current liabilities						
Bank overdrafts and short-term loans from financial institutions	15,601	2.9	16,191	3.2	12,509	2.7
Trade and other payables	45,957	8.5	48,833	9.6	45,080	9.7
Current portion of long-term debts	4,642	0.9	6,935	1.4	8,139	1.8
Current portion of debentures	44,889	8.3	49,904	9.8	24,885	5.3
Short-term loans	204	0.0	182	0.0	90	0.0
Income tax payable	2,943	0.6	2,207	0.4	2,025	0.4
Other current liabilities	3,832	0.7	3,065	0.6	2,790	0.6
Total current liabilities	118,068	21.9	127,317	25.0	95,518	20.5
Non-current liabilities						
Long-term debts	7,634	1.4	13,350	2.6	24,219	5.2
Debentures	121,225	22.5	116,202	22.8	126,207	27.1
Deferred tax liabilities	3,025	0.5	2,125	0.4	2,366	0.5
Employee benefit obligations	7,184	1.3	6,690	1.3	6,331	1.4
Other non-current liabilities	934	0.2	1,291	0.3	1,865	0.4
Total non-current liabilities	140,002	25.9	139,658	27.4	160,988	34.6
Total liabilities	258,070	47.8	266,975	52.4	256,506	55.1
Shareholders' equity						
Share capital						
Authorized share capital - Ordinary share	1,600		1,600		1,600	
Issued and paid-up share capital - Ordinary share	1,200	0.2	1,200	0.2	1,200	0.3
Retained earnings						
Appropriated						
Legal reserve	160	0.0	160	0.0	160	0.0
General reserve	10,516	2.0	10,516	2.1	10,516	2.3
Unappropriated	237,993	44.1	202,440	39.7	174,573	37.5
Other components of shareholders' equity	(9,846)	(1.8)	(8,155)	(1.6)	(9,166)	(2.0)
Total equity attributable to owners of the parent	240,023	44.5	206,161	40.4	177,283	38.1
Non-controlling interests	41,595	7.7	36,845	7.2	32,034	6.8
Total shareholders' equity	281,618	52.2	243,006	47.6	209,317	44.9
Total liabilities and shareholders' equity	539,688	100.0	509,981	100.0	465,823	100.0

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

(Million Baht)

	2016	%	2015	%	2014	%
Revenue from sales	423,442	100.0	439,614	100.0	487,545	100.0
Cost of sales	(319,021)	(75.3)	(341,511)	(77.7)	(409,431)	(84.0)
Gross profit	104,421	24.7	98,103	22.3	78,114	16.0
Other income	9,198	2.2	10,134	2.4	9,924	2.1
Profit before expenses	113,619	26.9	108,237	24.7	88,038	18.1
Selling expenses	(16,002)	(3.8)	(17,671)	(4.0)	(17,313)	(3.6)
Administrative expenses	(34,229)	(8.1)	(31,990)	(7.3)	(27,639)	(5.7)
Total expenses	(50,231)	(11.9)	(49,661)	(11.3)	(44,952)	(9.3)
Profit from operations	63,388	15.0	58,576	13.4	43,086	8.8
Share of profit of associates and joint ventures	17,933	4.2	10,293	2.3	6,108	1.3
Profit before finance costs and income tax expense	81,321	19.2	68,869	15.7	49,194	10.1
Finance costs	(5,984)	(1.4)	(9,076)	(2.1)	(7,266)	(1.5)
Profit before income tax expense	75,337	17.8	59,793	13.6	41,928	8.6
Income tax expense	(4,618)	(1.1)	(6,077)	(1.4)	(4,968)	(1.0)
Profit for the year	70,719	16.7	53,716	12.2	36,960	7.6
Profit attributable to						
Owners of the parent	56,084	13.2	45,400	10.3	33,615	6.9
Non-controlling interests	14,635	3.5	8,316	1.9	3,345	0.7
	70,719	16.7	53,716	12.2	36,960	7.6
Basic earnings per share (in Baht)						
Attributable to owners of the parent	46.74		37.83		28.01	

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Profit for the year	70,719	53,716	36,960
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains (losses)	(149)	(203)	100
Share of other comprehensive income of associates and joint ventures	(19)	(54)	35
Income tax on other comprehensive income relating to items that will not be reclassified	28	40	1
Items that will be reclassified to profit or loss when specific conditions are met			
Foreign currency translation differences	(731)	123	(430)
Gains (losses) on remeasuring available-for-sale investments	502	(88)	(2,078)
Share of other comprehensive income of associates and joint ventures	77	919	(427)
Income tax on other comprehensive income relating to items that will be reclassified	(131)	18	411
Other comprehensive income for the year, net of income tax	(423)	755	(2,388)
Total comprehensive income for the year	70,296	54,471	34,572
Total comprehensive income attributable to			
Owners of the parent	55,857	46,430	31,349
Non-controlling interests	14,439	8,041	3,223
	70,296	54,471	34,572

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Cash flows from operating activities			
Profit for the year	70,719	53,716	36,960
Adjustments for			
Depreciation and amortization	22,710	20,770	18,062
Interest income	(818)	(924)	(795)
Interest expense	7,209	7,868	8,000
Unrealized gain on foreign currency exchange	(224)	(118)	(156)
Allowance for decline in value of inventories (reversal)	129	(707)	512
Dividend income	(2,821)	(2,427)	(4,054)
Employee benefit expense	913	542	691
Share of profit of associates and joint ventures	(17,933)	(10,293)	(6,108)
Income tax expense	4,618	6,077	4,968
Gain on sales of investments, and others	(362)	(1,289)	219
Profit provided by operating activities before changes in operating assets and liabilities	84,140	73,215	58,299
Decrease (increase) in operating assets			
Trade and other receivables	2,452	(1,874)	(1,333)
Inventories	(386)	709	2,304
Other current assets	315	697	(581)
Other non-current assets	321	220	209
Net decrease (increase) in operating assets	2,702	(248)	599

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Increase (decrease) in operating liabilities			
Trade and other payables	(3,743)	1,372	(6,531)
Other current liabilities	460	285	576
Employee benefit obligations	(417)	(293)	(319)
Other non-current liabilities	(82)	(994)	(220)
Net increase (decrease) in operating liabilities	(3,782)	370	(6,494)
Cash generated from the operations	83,060	73,337	52,404
Income tax paid	(7,008)	(5,590)	(4,915)
Net cash provided by operating activities	76,052	67,747	47,489
Cash flows from investing activities			
Interest received	865	830	754
Dividends received	12,864	5,728	9,399
Temporary investments	(34,996)	(42,860)	(1,046)
Available-for-sale investments	(2,558)	(1,162)	(20,446)
Investments in associates and joint ventures	(28)	(406)	(2,661)
Net cash outflow on acquisition of subsidiaries	(544)	(1,486)	(1,112)
Proceeds from sales of investments	41,056	35,079	21,652
Income tax paid from sales of investments	-	(371)	(157)
Purchases of property, plant and equipment	(30,685)	(41,684)	(39,628)
Proceeds from sales of property, plant and equipment	545	249	378
Purchases of intangible assets	(1,329)	(1,386)	(1,268)
Currency translation differences	(435)	(331)	(279)
Net cash used in investing activities	(15,245)	(47,800)	(34,414)

THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Cash flows from financing activities			
Borrowings			
Interest paid	(7,596)	(8,072)	(8,240)
Increase (decrease) in bank overdrafts and short-term loans			
from financial institutions	(899)	3,373	(510)
Proceeds from long-term debts	1,450	2,825	8,578
Payments of long-term debts	(9,943)	(15,231)	(8,219)
Payments of finance lease	(82)	(48)	(793)
Proceeds from issuance of debentures	49,969	39,900	24,919
Redemption of debentures	(49,961)	(24,886)	(14,964)
Net increase (decrease) in borrowings	(17,062)	(2,139)	771
Dividends paid			
Dividends paid to owners of the parent	(20,399)	(17,350)	(14,956)
Dividends paid to non-controlling interests	(11,516)	(3,912)	(886)
Total dividends paid	(31,915)	(21,262)	(15,842)
Acquisition and increase in capital of non-controlling interests	(199)	501	3,593
Net cash used in financing activities	(49,176)	(22,900)	(11,478)
Net increase (decrease) in cash and cash equivalents	11,631	(2,953)	1,597
Cash and cash equivalents at beginning of the year	16,078	19,031	17,434
Cash and cash equivalents at end of the year	27,709	16,078	19,031
Supplementary information for cash flows			
Non-cash transactions			
Account payables from purchases of assets	4,304	3,826	1,750

FINANCIAL RATIOS OF THE SIAM CEMENT PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

		Consolidated Financial Statements		
		2016	2015	2014
LIQUIDITY RATIO				
Current Ratio	(Times)	1.32	1.17	1.44
Quick Ratio	(Times)	0.69	0.61	0.71
Cash Flow Liquidity	(Times)	0.62	0.61	0.51
Accounts Receivable Turnover	(Times)	9.88	10.35	11.90
Collection Period	(Days)	36	35	30
Inventory Turnover	(Times)	15.43	16.04	18.85
Inventory Turnover Period	(Days)	23	22	19
Accounts Payable Turnover	(Times)	9.60	10.05	11.24
Payment Period	(Days)	38	36	32
Cash Cycle	(Days)	21	21	17
PROFITABILITY RATIO				
Gross Profit Margin	(%)	24.66	22.32	16.02
Net Profit Margin *	(%)	12.45	9.87	6.68
Return on Equity	(%)	25.14	23.68	19.84
EFFICIENCY RATIO				
Return on Total Assets	(%)	10.69	9.31	7.42
Return on Fixed Assets	(%)	32.65	29.91	26.21
Assets Turnover **	(Times)	0.86	0.94	1.11
FINANCIAL POLICY RATIO				
Debt to Equity Ratio	(Times)	0.92	1.10	1.23
Interest Coverage Ratio	(Times)	11.01	8.83	6.64
Cash Flow Adequacy	(Times)	0.94	1.03	0.91
Dividend Payout Ratio	(%)	40.65	42.29	44.62

Note:

* Net Profit Margin = Profit for the year attributable to owners of the parent / Total revenue

** Assets Turnover = Total revenue / Total assets (Average)

Financial Statements and Financial Ratios

of

The Siam Cement Public Company Limited

THE SIAM CEMENT PUBLIC COMPANY LIMITED

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016, 2015 AND 2014

(Million Baht)

Assets	2016	%	2015	%	2014	%
Current assets						
Cash and cash equivalents	15,894	5.9	4,795	1.8	6,543	2.6
Temporary investments	9,834	3.6	16,284	6.2	7,970	3.2
Other receivables	2,317	0.9	2,594	1.0	4,861	2.0
Short-term loans	103,121	38.0	113,847	43.1	103,593	41.8
Other current assets	33	-	588	0.1	318	0.1
Non-current assets held for sale	3,203	1.2	-	-	-	-
Total current assets	134,402	49.6	138,108	52.2	123,285	49.7
Non-current assets						
Available-for-sale investments	6,344	2.3	8,886	3.4	7,944	3.2
Investments in associates	373	0.1	577	0.3	577	0.3
Investments in subsidiaries	118,749	43.7	105,403	39.9	105,394	42.5
Other long-term investments	3,030	1.1	3,030	1.1	3,030	1.2
Investment properties	1,939	0.7	1,953	0.7	1,960	0.8
Property, plant and equipment	3,235	1.2	3,373	1.3	3,297	1.3
Intangible assets	2,756	1.0	2,656	1.0	2,287	0.9
Deferred tax assets	-	-	-	-	19	-
Other non-current assets	805	0.3	295	0.1	320	0.1
Total non-current assets	137,231	50.4	126,174	47.8	124,828	50.3
Total assets	271,633	100.0	264,282	100.0	248,113	100.0

THE SIAM CEMENT PUBLIC COMPANY LIMITED
STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016, 2015 AND 2014

(Million Baht)

	2016	%	2015	%	2014	%
Liabilities and shareholders' equity						
Current liabilities						
Other payables	534	0.2	691	0.3	463	0.2
Current portion of debentures	45,000	16.6	50,000	18.9	25,000	10.1
Short-term loans	6,657	2.5	4,127	1.6	5,742	2.3
Accrued interest expense	1,436	0.5	1,556	0.6	1,435	0.6
Income tax payable	4	-	-	-	12	-
Other current liabilities	374	0.1	334	0.1	302	0.1
Total current liabilities	54,005	19.9	56,708	21.5	32,954	13.3
Non-current liabilities						
Debentures	121,500	44.7	116,500	44.0	126,500	51.0
Deferred tax liabilities	126	-	109	-	-	-
Employee benefit liabilities	679	0.2	648	0.2	549	0.2
Other non-current liabilities	1,391	0.5	1,389	0.5	1,548	0.6
Total non-current liabilities	123,696	45.4	118,646	44.7	128,597	51.8
Total liabilities	177,701	65.3	175,354	66.2	161,551	65.1
Shareholders' equity						
Share capital						
Authorized share capital - Ordinary share	1,600		1,600		1,600	
Issued and paid-up share capital - Ordinary share	1,200	0.5	1,200	0.5	1,200	0.5
Retained earnings						
Appropriated						
Legal reserve	160	0.1	160	0.1	160	0.1
General reserve	10,516	3.9	10,516	4.0	10,516	4.2
Unappropriated	80,609	29.7	75,784	28.7	73,356	29.6
Other components of shareholder's equity	1,447	0.5	1,268	0.5	1,330	0.5
Total shareholders' equity	93,932	34.7	88,928	33.8	86,562	34.9
Total liabilities and shareholders' equity	271,633	100.0	264,282	100.0	248,113	100.0

THE SIAM CEMENT PUBLIC COMPANY LIMITED
INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)					
	2016	%	2015	%	2014	%
Revenues						
Dividend income	24,067	76.3	18,576	70.0	22,762	78.6
Intellectual property income	2,808	8.9	2,988	11.3	3,113	10.8
Management fees for administration	2,550	8.1	2,208	8.3	2,418	8.3
Other income	2,121	6.7	2,771	10.4	672	2.3
Total revenues	31,546	100.0	26,543	100.0	28,965	100.0
Expenses						
Administrative expenses	(3,539)	(11.2)	(2,725)	(10.3)	(2,489)	(8.6)
Profit before finance costs and income tax expense	28,007	88.8	23,818	89.7	26,476	91.4
Finance costs	(2,451)	(7.8)	(3,611)	(13.6)	(1,862)	(6.4)
Profit before income tax expense	25,556	81.0	20,207	76.1	24,614	85.0
Income tax expense	(330)	(0.9)	(382)	(1.4)	(384)	(1.4)
Profit for the year	25,226	80.1	19,825	74.7	24,230	83.6
Basic earnings per share (in Baht)	21.02		16.52		20.19	

THE SIAM CEMENT PUBLIC COMPANY LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Profit for the year	25,226	19,825	24,230
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses	(3)	(59)	(5)
Income tax on other comprehensive income relating to items that will not be reclassified	1	12	1
Items that will be reclassified to profit or loss when specific conditions are met			
Gains (losses) on remeasuring available-for-sale investments	223	(77)	(1,843)
Income tax on other comprehensive income relating to items that will be reclassified	(45)	15	369
Other comprehensive income for the year, net of income tax	176	(109)	(1,478)
Total comprehensive income for the year	25,402	19,716	22,752

THE SIAM CEMENT PUBLIC COMPANY LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Cash flows from operating activities			
Profit for the year	25,226	19,825	24,230
Adjustments for			
Depreciation and amortization	779	599	457
Interest income	(4,619)	(5,215)	(4,791)
Interest expense	6,486	6,664	6,076
Unrealized loss (gain) on foreign currency exchange	7	(69)	32
Dividend income	(24,067)	(18,576)	(22,762)
Employee benefit expense	64	93	45
Income tax expense	329	382	384
Gain on sales of investments and others	(1,371)	(1,873)	(27)
Profit provided by operating activities before changes in operating assets and liabilities	2,834	1,830	3,644
Decrease (increase) in operating assets			
Other receivables	196	106	(2)
Other current assets	23	(108)	823
Other non-current assets	4	26	6
Net decrease in operating assets	223	24	827
Increase (decrease) in operating liabilities			
Other payables	(207)	238	(180)
Other current liabilities	39	32	71
Employee benefit obligations	(35)	(53)	(17)
Other non-current liabilities	(105)	(284)	530
Net increase (decrease) in operating liabilities	(308)	(67)	404
Cash generated from the operations	2,749	1,787	4,875
Income tax paid	(336)	(399)	(285)
Net cash provided by operating activities	2,413	1,388	4,590

THE SIAM CEMENT PUBLIC COMPANY LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

	(Million Baht)		
	2016	2015	2014
Cash flows from investing activities			
Interest received	4,684	5,142	4,774
Dividends received	24,063	20,957	20,362
Temporary investments	(29,923)	(40,637)	(993)
Available-for-sale investments	(2,558)	(1,162)	(20,446)
Investments in associates, subsidiaries and other companies	(13,345)	(9)	(61)
Proceeds from sales of investments	40,042	34,741	21,643
Income tax paid from sales of investments	-	(371)	(157)
Purchases of property, plant and equipment and intangible assets	(534)	(1,099)	(1,262)
Proceeds from sales of property, plant and equipment and intangible assets	2	16	96
Payment received from loans to (loans to) related parties	10,725	(10,208)	(6,747)
Net cash provided by investing activities	33,156	7,370	17,209
Cash flows from financing activities			
Borrowings			
Interest paid	(6,601)	(6,541)	(5,962)
Decrease in Short-term loans from financial institutions	-	-	(6,500)
Proceeds from (Payments of) short-term loans	2,530	(1,615)	436
Proceeds from issuance of debentures	50,000	40,000	25,000
Redemption of debentures	(50,000)	(25,000)	(15,000)
Net increase (decrease) in borrowings	(4,071)	6,844	(2,026)
Dividends paid	(20,399)	(17,350)	(14,956)
Net cash used in financing activities	(24,470)	(10,506)	(16,982)
Net increase (decrease) in cash and cash equivalents	11,099	(1,748)	4,817
Cash and cash equivalents at beginning of the year	4,795	6,543	1,726
Cash and cash equivalents at end of the year	15,894	4,795	6,543
Supplementary information for cash flows			
Non-cash transactions			
Account payables from purchases of assets	229	14	91

FINANCIAL RATIOS OF THE SIAM CEMENT PUBLIC COMPANY LIMITED

		Financial Statements		
		2016	2015	2014
<u>LIQUIDITY RATIO</u>				
Current Ratio	(Times)	2.49	2.44	3.74
Quick Ratio	(Times)	0.48	0.37	0.44
Cash Flow Liquidity	(Times)	0.04	0.03	0.15
<u>PROFITABILITY RATIO</u>				
Net Profit Margin *	(%)	79.97	74.69	83.65
Return on Equity	(%)	27.59	22.59	29.31
<u>EFFICIENCY RATIO</u>				
Return on Total Assets	(%)	9.41	7.74	10.00
Assets Turnover **	(Times)	0.12	0.10	0.12
<u>FINANCIAL POLICY RATIO</u>				
Debt to Equity Ratio	(Times)	1.89	1.97	1.87
Interest Coverage Ratio	(Times)	0.15	0.72	(1.26)
Dividend Payout Ratio	(%)	90.38	96.85	61.91

Note

* Net Profit Margin = Profit for the Year / Total Revenue

** Assets Turnover = Total Revenue / Total Assets (Average)

14. Management Discussion and Analysis

Operating Results and Financial Status

Business Overviews

SCG's profit for the year increased attributed to the healthy chemicals earning, while revenue from sales decreased, largely due to lower chemicals prices, following the drop in Naphtha and oil prices in the global market from last year.

In 2016, SCG's revenue from sales decreased 4% from the previous year to 423,442 Million Baht, largely due to lower chemicals prices, following the drop in Naphtha and oil prices in the global market from last year. However, EBITDA increased 16% from the previous year to 96,227 Million Baht. Likewise, profit for the year increased 24% to 56,084 Million Baht on better earnings in the chemicals business, reflecting lower feedstock costs, despite the weakness in the cement-building materials operations due to the soft demand in the domestic market.

In 2016, SCG's gross profit margin was 24.7%, an increase of 2.4% y-o-y. SCG's net profit margin was 12.5%, an increase of 2.6% y-o-y, on better earning in the chemicals business. And SCG's return on equity was 25.1%, an increase of 1.5% y-o-y.

Share of profit of associates and joint ventures for 2016 amounted to 17,933 Million Baht, an increase of 7,640 Million Baht from the previous year with details as follows:

- SCG Chemicals associates: Share of gain amounted to 14,220 Million Baht, increased 7,021 Million Baht from the previous year, attributed to better margin.
- Other associates: Share of profit amounted to 3,713 Million Baht, increased 619 Million Baht from the previous year.

Total dividends received in 2016 was 12,950 Million Baht, an increase of 124% y-o-y or 7,179 Million Baht, details as follows: a) 10,129 Million Baht from "Associated" companies (20%-50% stake), and b) 2,821 Million Baht from "Other" companies (less than 20% stake).

Continued solid financials, with cash and cash under management amounted to 47,252 Million Baht as at December 31, 2016, while amounted 40,279 Million Baht as at December 31, 2015, despite the CAPEX and Investments of 34,845 Million Baht during the year.

Operating Results of Strategic Business Segments

SCG Cement-Building Materials

In 2016, revenue from sales decreased 4% from the previous year to 170,944 Million Baht, due to softness in Thai market, which affected pricing and volume growth. This resulted in the drop of 5% from the previous year in EBITDA to 23,186 Million Baht. Similarly, profit for the year decreased 17% from the previous year to 8,492 Million Baht due to lower EBITDA and increased depreciation, mainly from the expansion of the second line cement production plant in Cambodia and the new cement plant construction project in Indonesia.

In 2016, domestic demand for cement declined slightly compared to the previous year. The domestic demand came from the government infrastructure projects while the demand from the household and private sectors witnessed some growth slowdown. The cement exports has decreased slightly compared to the year before.

Domestic demand for cement and building materials slackened due to the lack of consumer confidence and declining purchasing power. However, SCG Cement-Building Materials managed to maintain its leadership status in the building materials market through the continued development of high value-added products and services that address customers' needs and requirements.

Overall, the reboot growth in the demand for building materials in ASEAN was fueled by the cement and building materials market expansion. Cambodia, in particular, witnessed a steady growth driven by the housing and commercial building projects and the government's large-scale infrastructure projects such as road network. In Myanmar, the growth was propelled mainly by the government's infrastructure projects and private investment projects, especially factories in various special economic zones. However, high-rise building projects slight regression development in the third quarter as the government was reviewing the high-rise building permits. The growth in Vietnam and the Philippines was spurred by government infrastructure projects such as the subway train initiative in Vietnam and the government's policy to promote housing in the Philippines. Likewise, construction projects in Indonesia saw an uptick in growth from the previous year in light of the government's infrastructure projects such as the expressway, airport, dam, and high-speed train.

SCG Chemicals

In 2016, revenue from sales decreased 6% from the previous year to 188,163 Million Baht on lower chemicals prices. However, EBITDA increased 39% from the previous year to 59,700 Million Baht and profit for the year registered 42,084 Million Baht, an increase of 48% from the previous year, benefiting from better performance of associates and lower feedstock costs.

In 2016, the chemicals industry was experiencing an upswing, thanks to the dwindling output from new derivatives plants. Also, increase in supply was lower than the growing demand in the market, resulting in wider product-to-feed margins which contributed to SCG Chemicals' improved operating results.

The prices of naphtha, the main feed, was 398 USD per ton, a drop of 19% from the previous year due to falling crude oil prices amid continued oversupply. The average prices of polyethylene and polypropylene resins were 1,132 and 1,051 USD per ton, a decrease of 8% and 9%, respectively year-on-year. However, in spite of lower product prices, the plummeting feedstock prices provided larger cost advantage, leading to wider product to-feed margins.

On competition, the resin prices in the petrochemical business are cyclical subject to fluctuations tied to global resin prices and oil prices, which determine the cost of raw materials. To counteract the high volatility in resin and raw material prices and to prepare for critical situations, SCG Chemicals has pledged to develop numerous high value-added products and services (HVA). The emphasis is placed on research and development to create innovative products that better address the emerging application needs of customers. The company also utilizes its know-how and expertise in petrochemical operations to drive innovations and services to provide industrial solutions.

SCG Packaging

In 2016, revenue from sales increased 5% from the previous year to 74,542 Million Baht mainly from higher domestic and regional sales volume of packaging paper. EBITDA amounted to 10,745 Million Baht, decreased 1% from the previous year due to lower performance of Fibrous Chain, while profit for the year increased 3% from the previous year to 3,565 Million Baht.

Packaging Chain: Total sales volume rose 7% compared to 2015 due to the increasing demand for packaging paper and corrugated containers especially in ASEAN which recorded a 4% growth from the previous year.

Fibrous Chain: Total sales volume of printing & writing paper grew 1% compared to 2015, attributable to a rise in export revenue amidst of steady decline in domestic demand.

In 2016, domestic demand for corrugated containers witnessed a modest growth as a result of subdued consumption. However, demand in ASEAN grew continuously, particularly in Vietnam, prompting corrugated containers manufacturers in the region to increase their production capacities, leading to an intense price competition. This posed a challenge for manufacturers to streamline their operational efficiency to better address customer needs and maintain sustainable business growth.

Domestic demand for packaging paper remained stable whereas demand in ASEAN increased steadily, in conjunction with the economy and export-oriented manufacturing.

Domestic demand for printing & writing paper relapsed steadily from the substitution of digital media. Meanwhile, imports in 2016 dropped year-on-year whilst the copy paper industry faced strong price competition from manufacturers in China and Indonesia.

In 2016, the company expanded the domestic production capacity of flexible packaging for consumer products including diapers and flexible refill pouch packaging. Prepack Thailand Co., Ltd. expanded capacity in Samut Sakhon province for an additional 70 million square meters per year. The expansion project was completed and began operations in the first quarter of 2016. The company expanded the manufacturing base for packaging paper through investment in capacity expansion at Vina Kraft Paper Co., Ltd. in Vietnam, increasing additional output capacity by 243,000 tons annually. The investment was in response to the fast-growing demand for packaging paper in Vietnam. The expansion project was commenced operations in the first quarter of 2017, three months earlier than previously planned.

Financial Status

Assets

Continued solid financials, with cash and cash under management of 47,252 Million Baht.

Total assets of SCG as at December 31, 2016 was 539,688 Million Baht, with an increase of 6% from the previous year. Key components of total assets were property, plant and equipment at 45%, current assets at 29% and investments at 19%. Ranking of asset values by business segments are SCG Cement-Building Materials, SCG Chemicals, and SCG Packaging, respectively.

Current assets: amounted to 155,991 Million Baht as at December 31, 2016, with an increase of 5% from the previous year, comprising largely of inventories, trade and other receivables, cash and cash equivalents, and temporary investments. At December 31, 2016, SCG's working capital was 62,507 Million Baht with working capital days at 53 days.

Cash and cash under management: amounted to 47,252 Million Baht as at December 31, 2016, increase 6,973 Million Baht from the previous year, despite the CAPEX and Investments of 34,845 Million Baht during the year.

Investments in associates and joint ventures: amounted to 95,498 Million Baht as at December 31, 2016, an increase of 4,608 Million Baht or 5% from the previous year with the following reasons:

- Increase from share of profit using equity method amounted to 17,933 Million Baht, attributed to healthy earnings from the chemicals associates.

- Decrease from dividends received amounted to 10,129 Million Baht mainly from the chemicals associates' dividend income.

In addition, significant movements during the year on investments in associates and joint ventures were as follows:

- Decrease from disposals amounted to 1,476 Million Baht, during the year, the cement-building materials had sold the entire 33% stake in Maker-Manifatture Ceramiche S.r.l., the form of the joint venture with Florim Ceramiche S.p.A., which is the production facilities of ceramics in Italy. Additionally, the other segment had sold its all 21% stakes in Musashi Auto Parts Co., Ltd., a leading manufacturer of motorcycle parts and automotive parts, to the existing shareholder.
- Decrease from the change in status of associate to subsidiary amounted to 357 Million Baht from the additional share acquisition of 10% portion in Jumbo Barges and Tugs Co., Ltd., the river and coastal logistics provider, resulting in the increase in ownership interests to 55%.

Property, plant and equipment: amounted to 245,183 Million Baht as at December 31, 2016, an increase of 14,251 Million Baht or 6% from the previous year due to the CAPEX and Investments during the year.

Liabilities

Net debt decreased 15,542 Million Baht, resulting from an increase in operating cash inflow, despite the CAPEX and Investments during the year.

Total liabilities as at December 31, 2016 amounted to 258,070 Million Baht, a decrease of 3% from the previous year. During the year, SCG had issued new debentures totaling 50,000 Million Baht to replace the matured debentures of 50,000 Million Baht. Finance costs were 5,984 Million Baht, a decrease of 3,092 Million Baht from last year due to the foreign exchange gain, recovered from the loss in the previous year.

Net debt (interest-bearing debt less cash and cash under management) of SCG as at December 31, 2016 decreased 15,542 Million Baht from the previous year to 146,943 Million Baht, resulting from an increase in EBITDA, despite the CAPEX and Investments of 34,845 Million Baht mainly from the investment in the cement plant construction projects in Myanmar and the Laos People's Democratic Republic, and the packaging paper capacity expansion project in Vietnam. Include with the additional purchase of all stakes in Prime Group Joint Stock Company, the leading manufacturer of ceramic tiles in Vietnam and the acquisition of all ordinary shares in Silasanon Co., Ltd., a producer of aggregates which is an important element of the ready-mixed concrete supply chain.

As the end of year 2016, SCG had commitments and contingent liabilities that had been disclosed in note 36 to the financial statements pages 225-227 of the Annual Report 2016. The significant commitments and contingent liabilities included commitments for purchase of raw material contracts, purchasing land,

construction and installation of machinery and implementation project, forward contracts and swap contracts with several local and foreign banks to hedge against the risk from foreign investment, payment of borrowings, payment for goods, machinery and equipment purchased, and money received from sales of goods.

The Ability of Asset Management

Trade and other receivables: stated at their invoice value less allowance for doubtful accounts which were assessed on analysis of payment histories and future expectations of receivable payment. The normal credit term granted by the Group was 15 - 90 days. As at December 31, 2016, the outstanding overdue amounts of accounts receivable have credit bank guarantees amounting to 1,191 Million Baht (2015: 1,159 Million Baht), as disclosed in note 6 to the financial statements pages 191 of the Annual Report 2016.

In 2016, SCG doesn't have significant deteriorated or obsolete inventories, impairment of investments and goodwill as disclosed in note 7, note 10 and note 15 to the financial statements pages 192, pages 194-197 and pages 203 of the Annual Report 2016 respectively.

Liquidity and Adequacy of Capital

At the end of year 2016, SCG had cash and cash equivalents amounted 27,709 Million Baht, an increase of 11,631 Million Baht from previous year. As a consequence of cash flows provided by operating activities amounted 76,052 Million Baht. Meanwhile, cash flows used in investing activities amounted to 15,245 Million Baht and cash flows used in financing activities was 49,176 Million Baht mainly from CAPEX & Investment amounted to 34,485 Million Baht and dividend payment.

Regarding the liquidity ratios, SCG registered a current ratio of 1.3 times while the cash flow liquidity was 0.6 times. SCG's Cash Cycle was 21 days (average collection period + inventory turnover period - average payment period). The cash flows and liquidity ratios ensured that SCG possessed adequate liquidity for business operation, ability of making payment, compliance with the loan conditions, as well as obtaining additional source of funds, and accompanying with overdraft lines with several banks amounting to approximately 6,556 Million Baht as disclosed in note 18 to the financial statements pages 206 of the Annual Report 2016.

Financial Ratios

SCG's financial ratios remain solid.

In 2016, current ratio registered 1.3 times and net debt to EBITDA ratio decreased to 1.5 times, compared to 2.0 times in the last year. At the end of 2016, debt to equity ratio was at 0.9 times, compared to 1.1 times in the last year.

In 2016, SCG's gross profit margin was 24.7%, an increase of 2.4% y-o-y. SCG's net profit margin was 12.5%, an increase of 2.6% y-o-y, on better earning in the chemicals business. And SCG's return on equity was 25.1%, an increase of 1.5% y-o-y.

In 2016, SCG's return on assets was 10.7%, an increase of 1.4% y-o-y while SCG's return on fixed assets was 32.7%, an increase of 2.7% y-o-y reflecting more efficiency in SCG's assets management.

CAPEX & Investment

In 2016, CAPEX & Investment amounted to 34,485 Million Baht, of which 55% was from SCG Cement-Building Materials, 23% from SCG Packaging, 19% from SCG Chemicals and 3% from others. This is slightly lower than the expected in 2016, however, the expected CAPEX & Investment in 2017 is approximately 60,000 MB to 70,000 MB.

R&D Spending and Innovation Development

In 2016, SCG invested 4,350 Million Baht in R&D, representing 1% of total sales revenue. We aim to develop innovation that create significant business impact, including product innovation, process innovation as well as service innovation.

SCG put emphasis on developing innovation strategy and portfolio that align with both short term and long term business strategy. We create technology roadmap for planning long term technology development. We also focus on PDCA innovation management process as well as IP management. Furthermore, to increase speed of technology development and commercialization, we collaborate with many leading universities, research institutes both in Thailand and other countries. We expect to be able to deliver product and service that are different from our competitors and create more value to business.

Example of SCG innovative products including EZY steam self-venting packaging for containing ready-to-go meals, Aniti microbial dental plaster, emisspro® high emissivity coating for energy saving in industrial furnaces, COTTO digital which adopting digital printing technology to develop natural look ceramic tiles.

Continuous investing in R&D and Innovation is the key success factor to increase SCG competitive advantage. In 2016 SCG has revenue from sales for High-Value Added (HVA) products and services amounted 160,910 Million Baht, accounting for 38% total sales revenue.

Factors Affecting the Future Operations

Over the year, SCG has long adopted the principles of Sufficiency Economy in its business practice. The balance of economy, society, environment and culture has enable the company to survive challenges and crises and thrive amid constant global economic changes.

“Sufficiency” does not mean “stop”, but rather “working at full potential to achieve sustainable growth”. The principles of Sufficiency Economy is the approach to sustainability which can be adopted by all, not only by the agricultural sector. Therefore, operating business in accordance to the principles of Sufficiency Economy does not mean that one must halt business growth or maximizing short-term profitability, but one must rather use the principles to help achieve business stability and sustainable growth.

With eternal respect and gratitude for H.M. King Bhumibol Adulyadej, SCG pledges to follow the Royal footsteps in sustaining the development of our business and giving knowledge and act as a role model to other organizations to maintain ASEAN sustainable growth and prosperity.

In 2016, SCG continues to maintain solid financial position and throughout its 100 years of operations, SCG has conducted business in tune with the sustainable development approach under good corporate governance principles, with a resolution to further the development to drive sustainable growth and prosperity in ASEAN. However, for business's readiness in order to deal with changing social and economic circumstances combined with prudent business operations, SCG has continuously raised risk management awareness throughout the organization as we believe that the better risk management efficiency from strategic formulation, to operation, to decision for new investment will add value to the organization and stakeholders and contribute to SCG's sustainable growth. The key risks affecting the future operations such as safety health and environment risk, compliance risk, reputation and intellectual property risk, hazard risk, input risk, process risk, business environment risk and emerging risk had been disclosed in article 3. Risk Management pages 45-54.

SCG believe that adoption of the “Sufficiency Economy” principles through the implementation of enterprise risk management is the key component to ensure that the organization achieve its business goals.