

Sri Trang Agro-Industry Public Company Limited

Part 3

Financial Position and Operating Result

13. FINANCIAL INFORMATION**13.1 Statements of Financial Position**

(Unit : Baht million)	Consolidated		
	As at 31 December		
	2013	2012	2011
Assets			
<i>Current assets</i>			
Cash and cash equivalents	1,892.7	1,534.0	2,273.0
Derivative financial instruments	76.0	100.1	329.3
Trade accounts receivable and other receivables, net	7,441.2	6,511.3	7,787.4
Amounts due from futures brokers	320.8	384.5	406.4
Inventories, net	16,581.9	13,151.6	17,336.6
Other current assets	285.7	289.4	198.9
<i>Total current assets</i>	26,598.4	21,970.9	28,331.7
<i>Non-current assets</i>			
Long-term loan to an associate	65.4	60.8	62.9
Fixed deposits pledged as collateral	61.2	99.5	143.5
Investments in associates	3,541.2	3,456.1	3,122.6
Investment in a joint venture	489.2	489.3	456.5
Available-for-sale investments	52.4	59.1	43.7
Property, plant and equipment, net	12,925.9	10,034.3	7,475.6
Intangible assets, net	27.0	21.4	24.2
Investment properties	176.3	160.4	102.3
Withholding tax deducted at source	240.0	169.7	76.6
Deferred income tax assets, net	121.8	144.7	228.7
Other non-current assets	21.3	29.8	35.0
<i>Total non-current assets</i>	17,721.7	14,725.2	11,771.5
Total assets	44,320.1	36,696.2	40,103.2
Liabilities and shareholders' equity			
<i>Current liabilities</i>			
Trade accounts payable and other payables	3,932.1	2,428.5	2,543.7
Short-term loans from financial institutions	14,223.1	12,173.0	15,425.6
Current portion of long-term loans from financial institutions	113.4	114.0	120.0
Current portion of debentures	1,600.0	-	-
Current portion of finance lease liabilities	17.9	9.8	11.5
Derivative financial instruments	532.9	164.2	1,112.2
Current income tax liabilities	20.5	8.2	192.4
Other current liabilities	46.5	45.3	65.2
<i>Total current liabilities</i>	20,486.3	14,943.1	19,470.6
<i>Non-current liabilities</i>			
Long-term loans from financial institutions	2,113.7	400.9	314.9
Debentures	1,450.0	2,150.0	2,150.0
Finance lease liabilities	28.7	5.6	12.3
Deferred income tax liabilities, net	68.3	171.3	19.8
Provision for retirement benefit obligations	106.9	88.5	104.8
<i>Total non-current liabilities</i>	3,767.5	2,816.2	2,601.7

(Unit : Baht million)	Consolidated		
	As at 31 December		
	2013	2012	2011
Total liabilities	24,253.8	17,759.4	22,072.3
Shareholders' equity			
Issued and paid-up share capital	1,280.0	1,280.0	1,280.0
Premium on share capital	8,551.0	8,551.0	8,551.0
Deduction arising from acquisition of additional interest in subsidiaries from non-controlling interests	(173.1)	(173.1)	(173.1)
Asset revaluation surplus, net of accumulated depreciation	1,206.3	1,176.4	833.2
Unrealised gains on available-for-sale investments	8.5	13.5	0.6
Cumulative currency differences on translating financial information	(453.4)	(347.9)	(120.5)
Retained earnings:			
Appropriated - legal reserve	128.0	128.0	128.0
Unappropriated	9,430.7	8,224.1	7,437.3
Total parent's shareholders' equity	19,978.0	18,851.9	17,936.4
Non-controlling interests	88.3	84.9	94.4
Total shareholders' equity	20,066.3	18,936.8	18,030.9
Total liabilities and shareholders' equity	44,320.1	36,696.2	40,103.2

13.2 Statements of Comprehensive Income

(Unit : Baht million)	Consolidated		
	2013	2012	2011
Revenues from sales of goods and services	92,185.2	99,639.1	133,703.8
Cost of sales and services	(86,996.1)	(94,864.0)	(127,941.3)
Gross profit	5,189.1	4,775.1	5,762.5
Other income	260.0	363.9	165.2
Selling expenses	(2,358.5)	(2,888.0)	(3,199.9)
Administrative expenses	(1,230.7)	(1,033.4)	(1,032.4)
Gains on exchange rate, net	312.5	815.1	(22.7)
Other gains (losses), net	338.6	(340.7)	505.7
Operating profit	2,511.0	1,691.9	2,178.4
Share of profit from investments in associates and a joint venture	495.6	526.8	648.9
Profit before net finance costs and income tax	3,006.6	2,218.7	2,827.3
Finance income	46.1	15.2	16.2
Finance costs	(1,075.3)	(709.7)	(885.0)
Finance costs, net	(1,029.3)	(694.5)	(868.8)
Profit before income tax	1,977.3	1,524.2	1,958.5
Income tax expense	(148.8)	(145.7)	(629.2)
Profit for the years	1,828.5	1,378.5	1,329.3
Other comprehensive income:			
Asset revaluation surplus, net of tax	(9.3)	367.9	35.6
Change in tax rate used in deferred tax recognition	70.5	-	(16.6)

(Unit : Baht million)	Consolidated		
	2013	2012	2011
Disposal of assets, net of tax	-	-	(6.2)
Change in fair value of available-for-sale investments, net of tax	(6.2)	12.9	(2.3)
Actuarial gains on defined employee benefit plan, net of tax	4.9	23.1	-
Currency differences on translating	(120.6)	(236.6)	166.8
Other comprehensive income (expense) for the years, net of tax	(60.6)	167.4	177.3
Total comprehensive income for the years	1,767.9	1,545.9	1,506.5
Profit for the years attributable to:			
Owners of the parent	1,811.6	1,378.9	1,306.2
Non-controlling interests	16.9	(0.3)	23.0
Profit for the years	1,828.5	1,378.5	1,329.3
Total comprehensive income for the years attributable to:			
Owners of the parent	1,766.1	1,555.5	1,480.0
Non-controlling interests	1.9	(9.6)	26.5
Total comprehensive income for the years	1,767.9	1,545.9	1,506.5
Earnings per share			
Basic earnings per share (Baht)	1.42	1.08	1.04

13.3 Statements of Cash Flows

(Unit : Baht million)	Consolidated		
	For the year ended 31 December		
	2013	2012	2011
Cash flows from operating activities			
Profit before income tax	1,977.3	1,524.2	1,958.5
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	268.3	(57.2)	139.8
Unrealised (gains) losses from revaluation of derivative financial instruments	392.8	(718.8)	749.0
(Reversal of) allowance for impairment of trade accounts receivable	14.2	41.2	31.2
(Reversal of) allowance for inventory cost in excess of net realisable value	(40.7)	(753.0)	869.6
Allowance for impairment of other receivables - non-controlling interests	-	-	18.4
Provision for retirement benefit obligations	25.1	14.1	17.5
Depreciation charges	731.8	612.3	476.1
Amortisation charges	8.6	8.8	7.1
Loss on asset revaluation	36.7	15.6	5.2
Finance costs	1,075.3	709.7	885.0
Dividend income	(22.9)	(1.3)	(1.2)
Share of profit from investments in associates and a joint venture	(495.6)	(526.8)	(648.9)

(Unit : Baht million)	Consolidated		
	For the year ended 31 December		
	2013	2012	2011
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	(4.2)	(11.5)	(8.0)
Gain from revaluation of investment properties	(6.3)	(33.5)	(15.4)
Gain on disposal of investment in an associate	(0.5)	-	-
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	(944.2)	1,234.9	(1,605.7)
- Amounts due from futures brokers	63.6	22.0	(271.4)
- Inventories	(3,389.7)	4,938.1	2,076.2
- Other current assets	(33.2)	37.3	(98.7)
- Other non-current assets	8.5	(7.6)	0.7
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	1,206.0	(111.9)	(488.5)
- Other current liabilities	1.2	(19.9)	(1.6)
Cash provided by (used in) operating activities	872.4	6,916.7	4,095.1
Interest paid	(1,047.5)	(714.5)	(878.2)
Income tax paid	(188.3)	(414.8)	(628.2)
Employee benefits paid	(0.1)	(2.2)	(2.0)
Net cash provided by (used in) operating activities	(363.6)	5,785.2	2,586.7
Cash flows from investing activities			
Cash paid for long-term loans to an associate	-	-	(62.9)
(Increase) decrease in fixed deposits pledged as collateral	38.3	44.0	(18.0)
Increase in available-for-sale investments	-	(0.2)	(0.1)
Dividends received	481.3	136.7	75.8
Cash paid for investments in subsidiaries and associates	-	(8.0)	(30.3)
Proceeds from business dissolution of an associate	6.8	-	-
Proceeds from disposal of property, plant and equipment and intangible assets	49.7	62.0	162.5
Cash paid for purchases of property, plant and equipment and intangible assets	(3,664.0)	(2,927.6)	(2,853.5)
Cash paid for purchases of investment properties	-	(27.3)	(6.8)
Net cash used in investing activities	(3,087.8)	(2,720.3)	(2,733.4)
Cash flows from financing activities			
Increase (decrease) in short-term loans from financial institutions	1,868.0	(3,235.5)	(4,854.1)
Proceeds from long-term loans	1,826.3	200.0	62.3
Repayments of long-term loans	(114.0)	(120.0)	(2,695.9)
Proceeds from issuance of debentures	900.0	-	2,150.0
Payments on finance lease liabilities	(31.7)	(8.3)	(21.9)
Dividend payment	(640.0)	(640.0)	(1,600.0)
Dividend payment from subsidiaries to non-controlling interests	(0.0)	(0.0)	-

(Unit : Baht million)	Consolidated		
	For the year ended 31 December		
	2013	2012	2011
Proceeds from capital increase from non-controlling interests	1.6	-	7.2
Proceeds from issuance of new ordinary shares	-	-	8,034.9
Costs directly attributable to the issue of new ordinary shares	-	-	(436.7)
Net cash provided by (used in) financing activities	3,810.1	(3,803.9)	645.7
Net increase (decrease) in cash and cash equivalents	358.7	(739.0)	499.1
Cash and cash equivalents at the beginning of the years	1,534.0	2,273.0	1,774.0
Cash and cash equivalents at the end of the years	1,892.7	1,534.0	2,273.0
Supplementary information for cash flows			
Cash paid for purchases of property, plant and equipment and intangible assets:			
Property, plant and equipment and intangible assets acquired	(3,996.6)	(2,929.0)	(2,843.5)
Increase in liabilities under finance lease liabilities	62.8	-	5.6
Increase in payable from purchases of assets	269.7	1.4	(15.6)
Cash paid for purchases of property, plant and equipment and intangible assets	(3,664.0)	(2,927.6)	(2,853.5)

13.4 Financial ratios

Financial Ratios		2013	2012	2011
<u>Liquidity Ratios</u>				
Current ratio	Times	1.30	1.47	1.46
Quick ratio	Times	0.46	0.54	0.52
Cash flow liquidity ratio	Times	(0.02)	0.34	0.12
Account receivable turnover ¹	Times	13.82	14.67	20.38
Average collection period	Days	26.06	24.55	17.67
Inventory turnover ²	Times	5.85	6.22	6.80
Inventory period	Days	61.52	57.85	52.93
Account payable turnover ³	Times	38.03	50.17	55.75
Average payment period	Days	9.47	7.18	6.46
Cash Cycle	Days	78.11	75.22	64.14
<u>Profitability Ratios</u>				
Gross profit margin	(%)	5.63	4.79	4.31
Operating profit margin	(%)	2.72	1.70	1.63
Operating cashflow to operating profit ratio	(%)	(0.14)	3.42	1.19
Net profit margin	(%)	1.97	1.38	0.98
Return on equity (ROE) ⁴	(%)	9.29	7.46	9.19

Financial Ratios		2013	2012	2011
<u>Efficiency Ratios</u>				
Return on assets (ROA) ⁵	(%)	4.47	3.59	3.36
Return on fixed assets ⁶	(%)	22.16	22.74	28.09
Fixed assets turnover ratio ⁷	Times	8.03	11.38	21.07
Total assets turnover ratio ⁸	Times	2.28	2.60	3.44
<u>Financial Leverage Ratios</u>				
Net debt to equity ratio	Times	1.11	0.86	1.10
Debt to equity ratio	Times	1.21	0.94	1.22
Interest bearing debt to equity ratio	Times	0.88	0.70	0.87
Net long-term debt to EBITDA ratio	Times	0.45	0.36	0.06
Interest coverage ratio	Times	0.80	9.36	4.63
Debt service coverage ratio	Times	(0.08)	0.83	0.21
Dividend payout ratio	(%)	45.93	46.41	49.00

Notes:

1. Computed by dividing sales of goods and services by average trade accounts receivable
2. Computed by dividing cost of sales and services by average inventories
3. Computed by dividing cost of sales and services by trade accounts payable
4. Computed by dividing net profit for the year (attributable to owners of the parent) by average shareholders' equity
5. Computed by dividing net profit for the year (attributable to owners of the parent) by average total assets
6. Computed by dividing summation of net profit for the year (attributable to owners of the parent) and depreciation by average fixed assets
7. Computed by dividing sales of goods and services by average fixed assets
8. Computed by dividing total revenues by average total assets

14. MANAGEMENT DISCUSSION AND ANALYSIS: MD&A

Financial Result Overview

In 2013, the Natural Rubber (NR) industry had to face numerous challenges, including the uncertainty of the global economic recovery, NR supply excess, the QE tapering by the Federal Reserve and the high level NR stock in China. Despite the challenges, 2013 is considered a satisfactory year for the Company in many aspects. Our sales volume reached a new industry record of 1.1 million tons amid softening demand and declining NR price. Our strategy to aggressively expand our customer base in high-growth markets, especially China, helped us maintain our position as a world leader with a global market share of 10%. Although sales of goods and services decreased by 7% as a result of declining NR price, our net profits grew by 31%. This proves that our strategy to invest in strategic locations and to operate with vigilance and adaptability has produced a satisfactory result in spite of inhospitable business climate.

Our increased net profit margin compared with the previous year was primarily attributable to a combination of an increase in gross profit, resulting from better management of raw materials costs; a decrease in expenses because of the four-month cess exemption; and gains from financial derivatives undertaken to hedge against fluctuations in rubber prices. However, those were partially offset by a decrease in exchange rate gains from financial derivatives as a result of the depreciation of Thai Baht against US Dollar; an increase in administrative expenses from the human resources department; and an increase in finance costs from unrealised exchange rate losses on USD-denominated loans and from a higher amount of loans to support our business expansion.

Non-recurring item for the year 2013 was the receipt of insurance proceeds for marine shipping accident of Baht 92.9 million and for the year 2012 was a cess refund of Baht 238.4 million. Both items were recorded under other income.

Income Statement Overview

	FY 2013	FY 2012	% YoY	Q4 2013	Q4 2012	% YoY
Unit: Baht million						
Revenue from sale of goods and services	92,185.2	99,639.1	-7.5%	23,930.4	22,794.2	5.0%
Cost of sales and services (net)	(86,996.1)	(94,864.0)	-8.3%	(22,467.5)	(21,404.9)	5.0%
Gross profit	5,189.1	4,775.1	8.7%	1,462.9	1,389.2	5.3%
SG&A	(3,589.2)	(3,921.4)	-8.5%	(844.2)	(952.6)	-11.4%
Other income	260.0	363.9	-28.5%	88.1	42.1	109.3%
Gains/(Losses) on exchange rate	312.5	815.1	-61.7%	(222.7)	164.9	-235.0%
Other gains/(losses) (net)	338.6	(340.7)	199.4%	44.2	40.1	10.4%
Operating profit	2,511.0	1,691.9	48.4%	528.3	683.7	-22.7%
Share of profit from investments in associates and a joint venture	495.6	526.8	-5.9%	152.5	102.0	49.5%
EBITDA	3,747.0	2,839.8	31.9%	875.8	950.3	-7.8%
EBIT	3,006.6	2,218.7	35.5%	680.8	785.6	-13.3%
Finance costs (net)	(1,029.3)	(694.5)	48.2%	(253.0)	(143.1)	76.8%
Income tax	(148.8)	(145.7)	2.1%	(0.8)	(7.7)	-89.9%
Net Profit for the period	1,828.5	1,378.5	32.6%	427.0	634.8	-32.7%
Attributed to owners of the parent	1,811.6	1,378.9	31.4%	425.8	635.5	-33.0%
Attributed to non-controlling interests	16.9	(0.3)	4995.9%	1.2	(0.7)	284.5%

In 2013, total sales of goods and services was Baht 92,185.2 million, a decrease of 7.5% YoY. The slow pace of the global economic recovery, concerns over the QE tapering, the persistence of NR global glut, and the high level of NR inventory in China conspired to put a pressure on NR price throughout 2013. As a result, the decline of sales was principally driven by a lower average selling price of 20.4% YoY, despite the growth of 15.5% in sale volume.

Thanks to our experienced sales and marketing team and strong distribution networks, 2013 was another year that we were able to make inroads into high-growth markets. Our sales volume of Natural Rubber broke a new industry record of 1,126,463 tons, an increase of 15.5% YoY, and outstripped 2013's global NR consumption growth forecasted by IRSG of 2.5%. We were able to accomplish this despite bearish fundamental demand & supply and numerous unfavourable external factors. Our sales volume to China, the world's largest NR consumer, substantially increased by 32.7% YoY to 560,570 tons in 2013. Demand from Japan and other Asian markets also rose significantly at 155.1% and 66.5% YoY respectively, as most tyre manufacturers ramped up their

production because of accommodative NR price. However, such increase was partly offset by a fall in sales volume to Malaysia, Europe, India, and the US by 64.1%, 25.8%, 17.5%, and 8.7% YoY, respectively. In addition, the expiration of the Thai government subsidy for the first-car project contributed to stagnant growth in the domestic market.

Gross profit in 2013 was recorded at Baht 5,189.1 million, an increase of 8.7% YoY. Gross profit margin in 2013 was 5.6%, an increase of 4.8% from the previous year. Assuming the reversal of inventory allowance of Baht 40.7 million was not made in 2013 but including the realised foreign exchange gains of Baht 655.2 million from our hedging policy, our adjusted gross profit margin would have been at 6.3%, higher than the adjusted gross profit margin in 2012 at 4.3%. The improved gross profit margin amid declining NR price and sluggish demand was a reflection of our management of raw materials costs and economy of scale.

Operating profits in 2013 amounted to Baht 2,511.0 million, an increase of 48.4% YoY. Operating profit margin was 2.7%, an increase of 1.7% from 2012. The improved operating profit margin was principally attributable to an increase in gross profit margin; a decrease in expenses, a result of the four-month cess exemption during September to December 2013; and gains from financial derivatives undertaken to hedge against fluctuations in rubber prices. However, those were partially offset by a decrease in exchange rate gains from financial derivatives, a result of the depreciation of Thai Baht against US Dollar from the second quarter onwards; an increase in administrative expenses from the human resources department; and a decrease in other income, due mainly to the absence of one-time revenue from cess refund* of Baht 238.4 million recorded in 2012.

Note: * Cess refund from NR inventories that ORPAF has examined during 20 - 30 September 2010, which is the period before the new cess rate (0.9 – 5.0 Baht per Kg.) come into effect, will be allowed to pay cess at the former rate (1.4 Baht per Kg.).

Net profit in 2013 was Baht 1,811.6 million, an increase of 31.4% YoY. Net profit margin was 2.0%, an increase from 1.4% in 2012. This was mainly due to an increase in operating profits, even though it was partially offset by an increase in finance costs from unrealised loss on exchange rate of USD denominated loans and from the higher amount of short-term and long-term loans to support our business expansion as well as a decrease in the share of profits from our investments in affiliates and joint ventures, resulting from the decrease in net profit from our Natural Rubber processing business and the liquidation of vinyl glove manufacturing business in China.

Key Factors Affecting the Company's Operations

1. Volatility of Natural Rubber Price

US Cent : Kilogram



Daily Price Movement of TSR20 and RSS3 at SICOM

Prices of Natural Rubber directly affect our revenues and profitability. At the beginning of 2013, NR price continued its positive momentum from the end of 2012, driven by positive macroeconomic indicators produced by the stimulus initiatives of major economies and NR stock replenishment by China. However, from the second quarter onwards, the high level of NR inventory in China, the slow pace of the global economic recovery and the QE tapering by the Federal Reserve have contributed to the decline NR price.

The NR price are affected by a number of factors including world economic conditions, which directly affect automobile and tyre industry; the demand and supply of Natural Rubber; exchange rate fluctuations, especially US dollar, Japanese Yen, and natural rubber exporting currencies such as Thai Baht, Indonesian Rupiah, and Malaysia Ringgit; oil prices, since natural rubber and synthetic rubber, which are derivatives of crude oil, are substitute products; and the government policy of major NR exporting countries.

Price Movement of TSR20 and RSS3 at Singapore Commodity Exchange Limited (SICOM) during 2012-2013

(Unit : US dollar per ton)	RSS3			TSR20		
	2012	2013	%Change	2012	2013	%Change
Q1 Average	3,861	3,156	-18.3%	3,695	2,958	-20.0%
Q2 Average	3,589	2,906	-19.0%	3,297	2,449	-25.7%
Q3 Average	2,971	2,590	-12.8%	2,752	2,344	-14.8%
Q4 Average	3,097	2,528	-18.4%	2,884	2,311	-19.9%
Year Average	3,378	2,790	-17.4%	3,155	2,510	-20.4%
Closing price as at 31 December	3,240	2,485		2,988	2,265	

2. Foreign exchange rate

Thai Baht : USD



Historical Exchange Rate of Thai Baht against US dollar

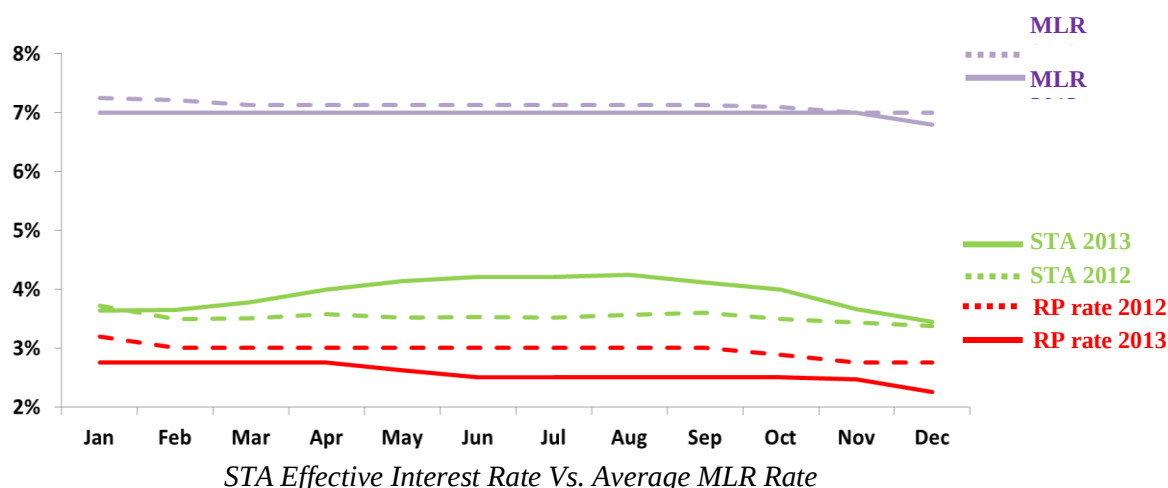
The fluctuations in the exchange rate between Thai baht and US Dollars could directly affect our revenues since approximately 83% of our total revenues are denominated in US Dollars while our financial reporting currency is in Thai Baht. In order to mitigate this risk, the Company uses forward and options of foreign exchange contracts to hedge our foreign exchange exposure. The mark-to-market of financial derivatives will be recognised as unrealised gains/losses on foreign exchange.

The capital inflow to Asian countries produced by the stimulus packages of the US and Japan in the third quarter of 2012 created an appreciation of Thai Baht against US dollar until the first quarter of 2013. Since then, the QE tapering by the Federal Reserve has reversed the capital flow, resulting in the depreciation of Thai Baht against US dollar towards the end of 2013. Therefore, when marking-to-market at the end of the year, our gains on foreign exchange decreased from Baht 815.1 million in 2012 to Baht 312.5 million in 2013.

3. Finance costs

The key factors that affect our finance costs are interest rate, NR price, sales volume and the movement of currency exchange. In 2013, finance costs increased 51.5% YoY to Baht 1,075.3 million, due mainly to unrealised losses on exchange rate of USD denominated loans and an increase in short-term and long-term loans to support our growth in sales volume, capacity expansion, and land acquisition for rubber plantations.

The graph below illustrates our average interest rates during 2012-2013, which were lower than the average Minimum Loan Rate (MLR) of three large commercial banks, namely Bangkok Bank, Kasikorn Bank, and Siam Commercial Bank, and closed to Bank of Thailand's policy rate.



4. Share of Profits from Investment in Affiliates

In 2013, the Company received its share of profits from investments in affiliates and joint venture companies for a total of Baht 495.6 million, of which 71.8% was contributed by glove business, 18.4% by high pressure hydraulic hoses business, and 10.4% by Natural Rubber processing business. Our share of profits from investment in affiliates decreased by 5.9% compared with the previous year, due mainly to the decrease in net profits of Natural Rubber processing business and the liquidation of vinyl glove manufacturing business in China, despite being offset by the increase in net profits of our examination gloves business.

5. Government Policy

The policy of the Thai Government may benefit or have an adverse impact on the Company's operations. For example, in 2012, price intervention by the Thai government to buy rubber from farmers at prices above market prices impacted our raw material costs. Moreover, the cooperative agreement among Thailand, Indonesia, and Malaysia (International Tripartite Rubber Council : ITRC) to withdraw Natural Rubber exports of 300,000 tons during October 2012 to March 2013 limited our export volume to some extent. However, the four-month cess exemption from September to December 2013 of the Office of Rubber Replanting Aid Fund brought down our expenses in 2013.

6. Tax Policy of the Countries in our areas of operation

The expiration in September 2012 of import tariff imposed by the US on cars and light-truck tires imported from China benefited the automobile and tyre industry in China. China will be an even more attractive destination for establishing tyre production base, which would lead to increased demand for Natural Rubber. With our strategy to expand our market share in China, we, therefore, directly benefit from such import tariff expiration.

Business Segmentation Analysis

Revenue breakdown by product segment (Baht million)

	FY 2013	FY 2012	% YoY	Q4 2013	Q4 2012	% YoY
RSS*	12,845.5	13,597.9	-5.5%	3,185.7	2,754.6	15.7%
%	13.9%	13.6%		13.3%	12.1%	
TSR*	70,820.3	77,524.8	-8.6%	18,097.2	18,095.3	0.01%
%	76.8%	77.8%		75.6%	79.4%	
Concentrated Latex	6,047.4	6,436.4	-6.0%	2,057.5	1,462.1	40.7%
%	6.6%	6.5%		8.6%	6.4%	
Others**	2,471.9	2,080.0	18.8%	589.9	482.2	22.3%
%	2.7%	2.1%		2.5%	2.1%	
Total revenue	92,185.2	99,639.1	-7.5%	23,930.4	22,794.2	5.0%

Note:

* Includes processing fee for Thai Government commencing to record from Q3 2012 onwards.

** Comprises revenue from (i) the sale of dried 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 external third parties

Technically Specified Rubber (TSR)

Revenue from the sales of TSR, our core product, declined by 8.6% YoY, due mainly to a decrease in average selling price of 21.0%, despite an increase in sales volume of 15.6% YoY. Our strategy to gain more market share in China, the world's largest and fastest-growing NR consumer, boosted the growth of our TSR sales volume, to be in line with the growth of China's NR import at 14.9% in 2013 (Source: IRSG). The decrease in the average selling price was in keeping with the declining SICOM price throughout 2013, which was produced by the unfavourable global economic environment and NR supply excess.

In 2013, gross profit of TSR grew 7.9% YoY. Gross profit margin also rose from the previous year despite softening market sentiment.

Ribbed Smoked Sheet (RSS)

Revenue from the sales of RSS decreased by 5.5% YoY, despite the 15% increase in sales volume. Such decline was mainly driven by a decrease in average selling price by 17.8%, in line with SICOM price.

In 2013, our gross profit from the sales of RSS increased by 22.0% YoY. Gross profit margin improved from 2012, when our gross profit margin was negatively affected by the price intervention scheme of the Thai government to buy rubber from farmers at prices above market prices.

Concentrated Latex

Revenue from the sales of Concentrated Latex was down 6.0% YoY. The decrease was attributable to a decline in average selling price of 18.6%, despite a 15.4% increase in sales volume. The increase in sale volume was due mainly to a pick-up in demand of NR as raw material for glove manufacturers.

However, Concentrated Latex industry remained under pressure from price competition of NR vs NBR. Thus, our gross profit from the sale of Concentrated Latex in 2013 contracted by 36.1% YoY and gross profit margin also declined from the earlier year.

Consolidated Balance Sheet*Current assets*

As of December 31, 2013 current assets increased by Baht 4,627.5 million, or 21.1%, to Baht 26,598.4 million. This is due primarily to an increase in inventories of Baht 3,430.4 million to support the increased sales volume and preparation for upcoming low NR supply season during February to May; an increase in trade accounts receivables and other receivables of Baht 929.9 million from the growth in sales volume growth; and an increase in cash and cash equivalent of Baht 358.7 million, which was partially offset by a decrease in the amount due from futures brokers of Baht 63.6 million and a decrease in derivative financial instruments of Baht 24.2 million.

At the end of 2013, 97.4% of our accounts receivable were not yet due or overdue less than 1 month while 0.6% was overdue by more than 1 year. The allowance for doubtful debts was 1.6% of total accounts receivable.

Non-current assets

As of December 31, 2013 non-current assets increased by Baht 2,996.4 million, or 20.3%, to Baht 17,721.7 million. This is primarily due to an increase in property, plants and equipment of Baht 2,891.5 million (net of depreciation and write-off) for the construction of our six new facilities in Thailand and Indonesia as well as an acquisition of land for rubber plantations, an increase in investment in affiliates of Baht 85.1 million, and an increase in withholding tax deducted at source of Baht 70.3 million. However, those were partially offset by a decrease in fixed deposits pledged as collateral of Baht 38.3 million and a decrease in deferred income tax assets of Baht 22.9 million.

Net book value of the Group's land and buildings as at 31 December 2013 (THB million):

Freehold land including land improvements	5,647.8
Leasehold land	166.5
Buildings and structures	2,934.9
Total	8,749.2

Current liabilities

As of December 31, 2013 current liabilities increased by Baht 5,543.2 million, or 37.1%, to Baht 20,486.3 million. This is mainly due to an increase in short-term loans of Baht 2,050.0 million to support the expanding sales volume, an increase in current portion of debenture of Baht 1,600.0 million, an increase in trade accounts payable and other payables of Baht 1,503.6 million from an increase in the purchase of raw materials, and an increase in derivative financial instruments of Baht 368.6 million.

Non-current liabilities

As of December 31, 2013 non-current liabilities increased by Baht 951.3 million, or 33.8%, to Baht 3,767.5 million. This is primarily due to an increase in long-term loans (net of current portion) of Baht 1,712.9 million to support capacity expansion and land acquisition for rubber plantations, even though they were partially offset by a decrease in debenture of Baht 700.0 million and a decrease in deferred income tax liabilities of Baht 103.0 million.

Shareholders' equity

As of December 31, 2013 equity increased by Baht 1,129.5 million, or 6.0%, to Baht 20,066.3 million, due mainly to increased net profit during the year, despite being offset by dividend payment of Baht 640.0 million.

Consolidated Cash Flow

As of 31 December 2013, the Group had cash and cash equivalents of Baht 1,892.7 million, an increase of Baht 358.7 million, or 23.4% from 31 December 2012.

The Group generated cash flows from operations before net change in operating assets and liabilities of Baht 3,960.1 million. The Company used Baht 3,087.7 million of cash arising from change in our operating assets and liabilities which was due primarily to an increase in inventories of Baht 3,389.7 million and an increase in trade accounts receivable and other receivables of 944.2 million, which were partially offset by an increase in trade accounts payable and other payables of 1,206.0 million.

The Company paid employee benefits, interests, and income tax for a total of Baht 1,235.9 million. Overall, the Company have net cash flows for use in operating activities of Baht 363.6 million.

Investment activities utilised net cash flows of Baht 3,087.8 million, principally for investment in property, plants and equipment of Baht 3,664.0 million to construct six new facilities in Thailand and Indonesia as well as for the acquisition of land for rubber plantations. This was partially offset by dividend received of Baht 481.3 million from affiliates and joint venture companies.

Net cash flow provided by financing activities amounted to Baht 3,810.1 million, mainly consisted of an increase of short-term loans and long-term loans from financial institutions of Baht 3,694.2 million and proceeds from the issuance of debentures of Baht 900.0 million, which was partially offset by dividend payment of Baht 640.0 million and repayment of long-term loans of Baht 114.0 million.

Source of Fund

In 2013, our capital expenditure was Baht 3,982.4 million, principally comprising Baht 2,046.5 million for the construction and expansion of TSR block rubber facilities and Baht 1,833.4 for the expansion of the rubber plantations business. Our four main sources of fund are consisted of cash flows from operations, short-term and long-term loans from financial institutions, debentures, and proceeds from the IPO in Singapore of SGD 336.0 million. As of 31 December 2013, proceeds from the IPO of SGD 43.9 million has not yet been used while only 40% of total loan facilities were utilised. Consequently, our debt to equity ratio was maintained at a conservative level of 1.21 times when compared with our competitors in the same industry. As of 31 December 2013, the Company were in compliance with all debt covenants.

Financial Ratios*Current ratios*

Current ratio is calculated by dividing total current assets by total current liabilities. As of 31 December 2013 and 31 December 2012 our current ratios were 1.30 and 1.47 times, respectively. The marginal decrease in our current ratio was due primarily to an increase in total current liabilities at a faster rate than an increase in total current assets to support our business expansion.

Fixed asset turnover ratio

Fixed asset turnover ratio is calculated by dividing the sales of goods and services by the average value of property, plant and equipment (net). As of 31 December 2013 and 31 December 2012, our fixed asset turnovers was 8.03 and 11.38 times, respectively. A decrease in fixed asset turnover ratio was due mainly to an increase in the value of property, plant and equipment and a decrease in revenues from NR products as a result of lower average selling prices.

Return on assets ("ROA")

ROA is calculated by dividing net profit (parent company) for the year by average total assets. As of 31 December 2013 and 31 December 2012, our ROA was 4.47% and 3.59%, respectively. An improvement of ROA was due to an increase in net profit at a faster rate than an increase in average total assets.

Return on equity ("ROE")

ROE is calculated by dividing net profit (parent company) for the year by average total equity. As of 31 December 2013 and 31 December 2012, our ROE was 9.29% and 7.46%, respectively. The increase in ROE was due mainly to an increase in net profit at a faster rate than an increase in average total equity.

Debt to equity ratio ("D/E")

D/E is calculated by dividing total debt by total equity. As of 31 December 2013 and 31 December 2012, our D/E was 1.21 and 0.94 times, respectively. The increase in D/E was due mainly to the increase in short-term and long-term loans from financial institutions to support the increasing sales volume, capacity expansion, and land acquisition for rubber plantations.

Business Outlook**Rubber Industry**

	2012	2013	2014F
%Global Growth (GDP)	3.1%	3.0%	3.7%
<i>Advanced economies</i>	1.4%	1.3%	2.2%
<i>Emerging markets and developing economies</i>	4.9%	4.7%	5.1%
<i>China (world's largest NR consumer)</i>	7.7%	7.7%	7.5%
Vehicle production (mil. Unit)	85	88	93
<i>% change</i>	5.7%	3.7%	5.4%
Tyre production (mil. Unit)	1,596	1,657	1,740
<i>% change</i>	-0.8%	3.8%	5.0%
NR consumption ('000 tons)	11,016	11,291	11,888
<i>% change</i>	0.1%	2.5%	5.3%

Source : IMF and The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2013

Global economic development is the key indicator for tyre consumption and NR growth prospects as approximately 70% of Natural Rubber demand is driven by the tyre industry, which is dependent primarily on industrial growth and the automobile industry. According to the International Monetary Fund (IMF) forecast as of January 2014, global economic growth is expected to be slightly higher than in 2013. This is due to the recovery of major advanced economies, which would benefit emerging markets and developing economies. With this better growth prospects, **NR consumption in 2014 is expected to grow at the rate of 5.3%** compared with the stagnant and sluggish growth of NR consumption during the past two years.

The current low NR price can be attributed to a number of factors. The QE tapering by the Federal Reserve continues to create a bearish NR market sentiment, since it leads to capital outflow from emerging markets and adverse exchange rate movement. NR prices quoted in the US dollar term are unfavorably affected by the depreciation of NR major exporting countries's currencies, including Thai baht, Indonesian rupiah, and Malaysia ringgit, against the US dollar.

Demand & Supply Balance***World Natural Rubber production and consumption during 2012 - 2014***

Unit : 000'tons	2012	2013	2014f
NR production	11,329	11,675	12,130
<i>% change</i>	<i>2.5%</i>	<i>3.1%</i>	<i>3.9%</i>
NR consumption	11,016	11,291	11,888
<i>% change</i>	<i>0.1%</i>	<i>2.5%</i>	<i>5.3%</i>
NR Balance	313	384	242

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2013

According to The World Rubber Industry Outlook forecasted by the International Rubber Study Group (IRSG) in December 2013, Global Natural Rubber consumption in 2014 is expected to be 11,888,000 tons, up 5.3% from 2.5% in 2013. Such demand increase is in line with growth of the tyre industry. The growth in demand comes primarily from China, the world's top NR consumer, India, Europe, and the US, from their better economic conditions. Meanwhile, IRSG forecasted that total global Natural Rubber production will increase by 3.9% YoY to 12,130,000 tons. Such increase is mainly contributed by Thailand, Indonesia, India, CAMAL*, and China.

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

As rubber trees take 6-7 years to be ready for tapping, new supply from new rubber plantations during the upsurge of NR price during 2005-2008 will come out from 2011 onwards. The rubber surplus should continue for the next couple of years as the increase in NR consumption may be insufficient to absorb the expansion of supply. However, with tapping curbed by the less attractive NR price and an improvement in demand from China and some advanced economies, IRSG anticipated that the supply surplus will be lower, from 384,000 tons in 2013 to 242,000 tons in 2014.

Progress of our expansion plan

Our strategy to aggressively expand our operations at every level of the supply chain remains on track.

Upstream Business – to achieve 8,000 hectares in 2014

The Company believes that having our own rubber plantations would allow us to procure raw materials at more favorable prices in new rubber plantations zone; increase the potential for capacity expansion for our midstream operations; provide us supply insights; and ultimately increase profitability.

As of 31 December 2013 the Company had approximately 37,500 rai (6,000 hectares), of which approximately 10,000 rai (1,600 hectares) was acquired during 2013. Most of the land is located in the northern region of Thailand. Approximately rubber trees planted in 460 rai (74 hectares) are ready for tapping, 23,040 rai (3,686 hectares) have been planted and will be ready for tapping from 2016 onwards, and 14,000 rai (2,240 hectares) are land under development prepared for planting during the rainy season in 2014.

Midstream Business – to expand production capacity to reach 1.5 million by the end of 2015

The Company believes that higher market share is the key for long-term success in the midstream business. This is because increased capacity will enable the Company to benefit from economy of scale and bolster its position as market leader.

As of 31 December 2013, our capacity was at industry record of 1.3 million tons per annum. Increased capacity, compared with that of 2012, was contributed by our new TSR plants in Ubon Ratchathani as well as the expansion of capacity of TSR plant in Sikao, Trang and in Palembang (Indonesia), which became the largest single factory in Indonesia. The Company aims to reach a

capacity of 1.5 million tons per annum by the end of 2015. Production capacity in Myanmar will contribute a new source of supply to the Group by the end of 2014, while our third plant in Indonesia in the Muara Bungo province is also under construction. The additional capacity from new plants and expanded plants in Thailand will be completed at different times. The continuance of capacity expansion not only allow us to create a strong foothold in many top producing countries, it also enable us to maintain our position as the world's largest Natural Rubber producer.

Raw Material Procurement - to enhance the procurement stronghold

The Company has implemented a strategy to effectively communicate with suppliers to ensure that the quality of raw materials supplied will always satisfy our requirements, saving production costs and enhancing production efficiency. Moreover, the Company has sought to forged a long-term relationship with suppliers by improving our procurement process.

Customer Base – to expand into high-growth markets

In 2013, our plan to continuously expand in high-growth markets, especially in China, was successfully implemented. The Company's global market share increased from 9% in 2012 to 10% in 2013 and the proportion of our sales volume to total China import improved from 13% in 2012 to 15% in 2013. Our newly established sales & distribution platform in Vietnam is expected to be ready in second half of 2014. We will continue to expand our customer base in the Chinese market while simultaneously attempting to make inroads into other high-growth markets to ensure that we would be able to satisfy the demands of customers from throughout the world.