

Sri Trang Agro-Industry Public Company Limited

Part 3

Financial Position and Operating Result

13. FINANCIAL INFORMATION

13.1 Statements of Financial Position

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2018	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4,197.3	2,241.9	1,674.6
Derivative financial instruments	59.6	407.9	165.0
Trade accounts receivable and other receivables, net	5,692.0	7,212.3	8,093.3
Amounts due from futures brokers	976.3	810.5	633.9
Inventories, net	12,311.4	17,123.0	20,931.0
Other current assets	602.9	553.7	314.1
Total current assets	23,839.5	28,349.4	31,811.9
Non-current assets			
Fixed deposits pledged as collateral	2.1	12.1	12.3
Investments in associates	394.9	368.0	1,489.9
Investment in joint ventures	406.4	362.0	3,699.2
Long-term investments	136.5	153.3	59.1
Property, plant and equipment, net	24,456.1	24,189.7	15,765.5
Rubber and palm plantations, net	2,051.5	1,832.4	1,573.4
Intangible assets, net	420.7	459.8	480.8
Goodwill	2,953.8	2,953.8	-
Investment properties	201.5	188.9	151.9
Withholding tax deducted at source	599.1	574.8	365.5
Deferred income tax assets, net	236.1	198.0	492.3
Other non-current assets	49.9	65.7	56.6
Total non-current assets	31,908.6	31,358.4	24,146.7
Total assets	55,748.1	59,707.8	55,958.6
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable and other payables	2,674.0	2,614.8	3,167.8
Short-term loans from financial institutions	15,616.4	21,786.0	23,433.8
Current portion of long-term loans from financial institutions	1,260.0	420.7	5,397.8
Current portion of debentures	810.0	600.0	-

13.1 Statements of Financial Position (Cont'd)

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2018	2017	2016
Current portion of finance lease liabilities	16.2	13.2	8.3
Derivative financial instruments	171.4	231.2	654.9
Current income tax liabilities	186.7	153.5	113.8
Other current liabilities	37.2	37.0	59.6
Total current liabilities	20,772.0	25,856.5	32,836.1
Non-current liabilities			
Long-term loans from financial institutions	7,344.4	7,193.7	0.7
Debentures	1,455.0	2,265.0	2,865.0
Finance lease liabilities	25.1	27.5	5.1
Deferred income tax liabilities, net	687.7	745.0	119.3
Provision for retirement benefit obligations	329.0	308.2	185.2
Other non-current liabilities	35.1	35.0	35.2
Total non-current liabilities	9,876.4	10,574.4	3,210.6
Total liabilities	30,648.3	36,430.9	36,046.6
Shareholders' equity			
Issued and paid-up share capital	1,536.0	1,536.0	1,280.0
Premium on share capital	10,852.0	10,852.0	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	4,102.7	4,049.4	1,296.9
Unrealised gains on available-for-sale investments	11.2	16.4	12.8
Cumulative currency differences on translating financial statement	(796.2)	(666.1)	(284.0)
Retained earnings			
Appropriated - legal reserve	153.6	128.0	128.0
Unappropriated	9,019.1	7,165.4	9,036.1
Total parent's shareholders' equity	24,705.2	22,908.0	19,847.5
Non-controlling interests	394.6	368.9	64.4
Total shareholders' equity	25,099.8	23,276.9	19,911.9
Total liabilities and shareholders' equity	55,748.1	59,707.8	55,958.6

13.2 Statements of Comprehensive Income

(Unit: Million Baht)	Consolidated		
	2018	2017	2016
Revenues from sales and services	73,492.8	89,387.0	77,265.5
Cost of sales and services	(66,385.3)	(85,610.6)	(71,852.0)
Gross profit	7,107.5	3,776.4	5,413.5
Other income	239.5	685.5	197.5
Selling expenses	(3,532.5)	(3,467.1)	(3,173.7)
Administrative expenses	(1,715.4)	(2,392.0)	(2,262.2)
Gains on exchange rate, net	(252.2)	522.1	6.4
Gains on change in fair value from group investment reclassification	-	223.6	-
Gain from disposals of investments in associates and general investment	-	132.7	-
Gains (losses) on change in fair value of investment properties	13.4	47.9	(1.9)
Other (losses) gains, net	1,189.9	99.5	(983.3)
Operating profit	3,050.2	(317.3)	(803.7)
Share of profit from investments in associates and joint ventures	223.7	129.8	402.8
Profit (loss) before net finance costs and income tax	3,273.9	(241.5)	(400.9)
Finance income	28.7	49.7	35.3
Finance costs, net	(915.7)	(1,206.1)	(672.0)
Profit (loss) before income tax	2,387.0	(1,397.9)	(1,073.0)
Income tax	(241.0)	(20.6)	283.2
Profit (loss) for the years	2,146.0	(1,551.2)	(789.7)
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in deferred tax rates	-	-	(112.5)
Asset revaluation surplus, net of tax	240.5	2,848.9	-
Remeasurements of post-employment benefit obligations, net of tax	11.7	(17.9)	(1.0)
<i>Items that will be reclassified subsequently to profit or loss</i>			
Changes in fair value of available-for-sale investments, net of tax	(5.2)	3.7	6.8
Currency differences on translation	(137.2)	(390.9)	(13.6)
Other comprehensive income (expense) for the years, net of tax	109.8	2,443.8	(120.3)
Total comprehensive income for the years	2,255.7	892.5	(910.0)
Profit for the years attributable to:			
Owners of the parent	2,064.4	(1,437.1)	(758.0)
Non-controlling interests	81.6	18.5	(31.7)
Profit (loss) for the years	2,146.0	(1,418.5)	(789.7)
Total comprehensive income for the years attributable to:			
Owners of the parent	2,181.2	1,015.5	(880.1)
Non-controlling interests	74.6	9.7	(29.9)
Total comprehensive income for the years	2,255.7	1,025.2	(910.0)
Earnings per share			
Basic earnings per share (Unit: Baht per share)	1.34	(1.05)	(0.57)

13.3 Statements of Cash Flows

(Unit: Million Baht)	Consolidated		
	2018	2017	2016
Cash flows from operating activities			
Profit before income tax	2,387.0	(1,397.9)	(1,073.0)
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	39.8	(160.3)	11.9
Unrealised (gains) losses from revaluation of derivative financial instruments	288.5	(666.6)	555.1
Reversal of allowance for impairment of trade accounts receivable and write-off bad debt	(7.6)	6.0	-
(Reversal of) allowance for inventory cost in excess of net realisable value	(172.3)	343.7	(453.7)
Provision for damaged inventories from fire accident	-	(41.6)	41.6
Provision for retirement benefit obligations	41.7	28.0	24.5
Depreciation charges	2,309.2	1,783.7	1,159.0
Amortisation charges - rubber and palm plantations	4.0	4.2	0.7
Amortisation charges - intangible assets	70.3	64.5	35.5
Loss on asset revaluation	13.2	24.0	-
Write-off income tax refund	0.5	-	132.0
Finance costs	915.7	1,245.6	707.3
Dividend income	28.7	(49.7)	(35.3)
Share of profit from investments in associates and joint ventures	1.8	(1.8)	(24.3)
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	223.7	(129.8)	(402.8)
Gains (losses) from revaluation of investment properties	(12.9)	0.8	62.1
(Gains) on change in fair value from group investment reclassification	-	(223.6)	-
Gains from disposal of investments in associates and general investment	-	(132.7)	-
(Gains) losses on change in fair value of investment properties	(13.4)	(47.9)	1.9
Gains from account receivables by settlement land and buildings	-	(16.7)	-
Insurance claim income from fire accident	-	(306.8)	-
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	1,499.6	2,344.9	(4,216.1)
- Amounts due from futures brokers	-	(176.6)	68.2
- Inventories	4,983.9	4,858.3	(6,554.2)
- Other current assets	53.9	(201.0)	35.5
- Other non-current assets	16.1	(8.2)	(20.2)
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	95.7	(1,595.5)	464.3
- Other current liabilities	0.2	(22.5)	19.5
- Provision for retirement benefit obligations	(4.6)	(5.8)	(2.3)
Cash provided by (used in) operating activities	12,124.3	5,524.5	(9,460.3)
Interest paid	(934.1)	(1,236.2)	(716.3)
Interest received	38.9	49.7	35.3
Income tax refunded	73.9	5.7	105.4
Income tax paid	(574.7)	(401.5)	(176.4)
Net cash provided by (used in) operating activities	10,728.3	3,936.4	(10,214.6)

13.3 Statements of Cash Flows (Cont'd)

(Unit: Million Baht)	Consolidated		
	2018	2017	2016
Cash flows from investing activities			
Decrease in fixed deposits pledged as collateral	10.0	0.2	21.1
Dividends received	(154.2)	2,299.9	1.4
Cash paid for investments in subsidiaries	-	(5,129.5)	-
Cash received from disposal of investments in associates and a general investment	-	689.4	-
Cash paid for long-term investment	-	(100.0)	-
Cash received from disposal of property, plant and equipment, rubber and palm plantations and intangible assets	50.2	165.9	-
Cash received from capital decrease of an associate	-	-	30.0
Cash paid for investment in joint venture	-	-	(114.6)
Cash paid for disposal of property, plant and equipment, rubber and palm plantations and intangible assets	(2,785.7)	(3,166.8)	(2,294.5)
Cash paid for purchases of an investment property	-	-	(0.2)
Net cash used in investing activities	2,571.4	(5,241.0)	(2,343.3)
Cash flows from financing activities			
Increase (decrease) in short-term loans from financial institutions	(5,962.7)	(2,165.6)	9,952.9
Proceeds from long-term borrowings	2,279.4	4,172.4	1,410.0
Repayments of long-term borrowings	(1,300.7)	(1,886.4)	(205.2)
Proceeds from debentures	-	-	2,265.0
Repayments of debentures	(600.0)	-	(850.0)
Payments on finance lease liabilities	(10.2)	(6.3)	(25.4)
Dividend paid	(391.7)	(506.1)	(512.0)
Dividend paid from subsidiaries to non-controlling interests	(48.9)	(293.1)	0.0005
Proceeds from capital increase from non-controlling interests	(48.9)	-	-
Net cash provided by (used in) financing activities	(6,034.8)	1,871.8	12,035.3
Net increase (decrease) in cash and cash equivalents	1,955.4	567.3	(522.6)
Cash and cash equivalents at the beginning of the years	(2,241.9)	1,674.60	1,674.60
Cash and cash equivalents at the end of the years	4,197.3	2,241.9	1,674.6

13.4 Financial Ratios

Financial Ratio		2018	2017	2016
Liquidity Ratios				
Current ratio	Times	1.10	1.10	0.97
Quick ratio	Times	0.48	0.38	0.30
Cash flow liquidity ratio	Times	0.32	0.14	(0.40)
Account receivable turnover ¹	Times	12.81	12.73	13.96
Average collection period	Days	28.11	28.27	25.79
Inventory turnover ²	Times	4.51	4.50	4.12
Inventory period	Days	79.81	80.01	87.41
Account payable turnover ³	Times	47.77	56.91	45.01
Average payment period	Days	7.54	6.33	8.00
Cash Cycle	Days	100.38	101.95	105.20
Profitability Ratios				
Gross profit margin	(%)	9.67	4.22	7.01
Operating profit margin	(%)	4.15	(0.56)	(1.04)
Operating cashflow to operating profit ratio	(%)	351.72	(802.43)	1,270.95
Net profit margin	(%)	2.81	(1.61)	(0.98)
Return on equity (ROE) ⁴	(%)	8.53	(6.65)	(3.68)
Efficiency Ratios				
Return on assets (ROA) ⁵	(%)	3.58	(4.81)	(3.45)
Return on fixed assets ⁶	(%)	2.80	1.60	2.38
Fixed assets turnover ratio ⁷	Times	2.80	4.12	4.58
Total assets turnover ratio ⁸	Times	1.27	2.99	3.52
Financial Leverage Ratios				
Net debt to equity ratio	Times	1.05	1.47	1.73
Debt to equity ratio	Times	1.22	1.57	1.81
Interest bearing debt to equity ratio	Times	1.06	1.36	1.56
Net long-term debt to EBITDA ratio	Times	0.82	4.39	5.96
Interest coverage ratio	Times	(3.50)	0.31	0.56
Debt service coverage ratio	Times	(2.04)	0.51	(0.73)
Dividend payout ratio	(%)	26.45 ⁹	-	N/A

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
9. For the operating result during 1 January 2018 – 30 June 2019

STA has successfully issued the debentures of Sri Trang - Agro Industry Public Company Limited no. 1/2556, Tranche 2, due in 2018, and Debenture of Sri Trang - Agro Industry Public Company Limited no. 1/2016. As part of both debentures' covenant, STA is required to maintain Net Debt to Equity Ratio under 3:1 times. During 2014 – 2016, STA has always maintained our capital structure and complied with such covenant requirement.

<u>Covenant Ratio</u>	2018	2017	2016
Net Debt to Equity Ratio (times)	1.05	1.47	1.73

Note:

1. **Net Debt** is net financial debts which is derived from total interest bearing debts as reported in STA consolidated financial statements less cash and cash equivalent and short term investments as reported in STA consolidated financial statements.
2. **Equity** is defined as total shareholder equity as reported in STA consolidated financial statements.

14. MANAGEMENT DISCUSSION AND ANALYSIS

Financial Result Overview

In 2018, the Natural Rubber (NR) industry still had to contend with an oversupply that stemmed from the planting of rubber trees during a period of high NR prices from 2010 to 2012 and the rubber trees planted during this period started to provide yield from 2017 onwards. The oversupply and consistently low NR prices prompted the governments of the three major NR-producing countries, namely Thailand, Indonesia and Malaysia, whose NR production together accounted for approximately 67% of global NR production, to agree to the Agreed Export Tonnage Scheme (AETS) to impose a quota of 350,000 tons of NR export during 1Q18. The government of Thailand also came up with various measures to shore up NR prices and promote domestic NR consumption. However, the global economic and political uncertainties, the volatility of currencies in the ASEAN region following the interest rate increase by the US Federal Reserve, and the escalating trade war between the US and China continued to weigh on market sentiments and led NR prices to extend their decline in 2018. The average price of TSR20 on SICOM for 2018 was 136.5 cent/kg, down 17.1% from 2017.

In 2018, we implemented the selective selling strategy, which focused on profitability and effective raw material cost management, in *our NR processing operations in the midstream*. As a result, we were able to maintain our market share at 10% of global NR consumption with 1,336,649 tons in sales volume. As for *our glove production operations in the downstream*, we expanded our production capacity to keep up with the growing global demand for gloves. We are currently the largest glove producer in Thailand and is ranked among the world's leading glove producers with 16,937 million pieces in sales volume, a figure that represents 6% of global glove consumption.

Our revenue in 2018 was Baht 73,732.3 million, down 18.1% from the previous year as a result of lower NR prices. Nevertheless, we managed to record Baht 2,064.4 million in profit attribute to owners of the Company thanks to our position as a fully integrated natural rubber company.

Extraordinary Event

We are in the process of amalgamating the operations of Sri Trang Gloves (Thailand) Ltd. ("STGT") and Thaikong Public Company Limited ("TK"), a glove producer with a production facility located in the province of Trang and 4,000 million pieces per annum in production capacity. The process is expected to be completed by April 2019 and will increase our total production capacity to 21,200 million pieces per annum upon completion.

Non-Recurring Item

In 2018, we received Baht 69.1 million in insurance proceeds paid out to our production facilities. The amount was recognized as revenue.

Income Statement Overview

(Unit : THB million)	FY18	FY17	% YoY	4Q18	4Q17	% YoY
Revenue from sales of goods and services	73,492.8	89,387.0	-17.8%	17,189.6	19,768.4	-13.0%
Cost of sales and services	(66,385.3)	(85,610.6)	-22.5%	(15,822.9)	(18,393.8)	-14.0%
Gross profit (loss)	7,107.5	3,776.4	88.2%	1,366.7	1,374.5	-0.6%
SG&A	(5,247.9)	(5,859.1)	-10.4%	(1,350.5)	(1,332.6)	1.3%
Other income	239.5	685.5	-65.1%	67.2	398.0	-83.1%
Gains (loss) on exchange rate, net	(252.2)	522.1	N/A	40.4	157.0	-74.3%
Other gains, net	1,203.3	503.6	138.9%	156.0	112.4	38.9%
Operating profit (loss)	3,050.2	(371.3)	N/A	279.8	709.7	-60.6%
Share of profit (loss) from investments in JV	223.7	129.8	72.3%	26.5	46.6	-43.1%
EBITDA	5,657.4	1,610.7	251.2%	993.5	1,325.1	-25.0%
EBIT	3,273.9	(241.7)	N/A	306.3	756.2	-59.5%
Finance costs (net)	(887.1)	(1,156.4)	-23.3%	(221.1)	(274.6)	-19.5%
Income tax (expense)	(241.0)	(20.6)	1068.1%	55.9	25.5	119.6%
Net Profit (loss) for the periods	2,146.0	(1,418.5)	N/A	151.1	507.0	-70.2%
Attributed to Owners of the parent	2,064.4	(1,437.0)	N/A	139.1	468.7	-70.3%
Attributed to non-controlling interests	81.6	18.5	340.9%	12.0	38.5	-68.8%

Revenue

Total revenue from products and services in 2018 was Baht 73,492.8 million, down 17.8% from 2017. Revenue from NR products was down 22.4% to Baht 61,361.2 million because of the average selling price that dropped 23.2% in tandem with NR prices on the global market, while sales volume slightly grew by 1.0%. Revenue from gloves was Baht 11,786.3 million, up 19.6% from 2017 on the back of a 12.4% growth in sales volume following the capacity expansion and marketing efforts in previously untapped markets and a 6.4% increase in average selling price because prices of synthetic rubber, the primary raw material in nitrile glove production, went up in tandem with oil prices on the global markets*, even though prices of LTX, the primary raw material in latex glove production, declined. Revenue from other products and services came in at Baht 354.3 million.

Note: *Because synthetic rubber is derived from crude oil, prices of synthetic rubber tend to move in the same direction as oil prices.

Sales Volume

Despite the imposition of the Agreed Export Tonnage Scheme (AETS) during 1Q18 and the escalating trade war between the US and China that went on throughout the year, our sales volume for NR products in 2018 was 1,336,649 tons, up 1.0% from 2017. We were also able to maintain our market share at 10% of global NR consumption. Sales volume for TSR rose 2.5% on the back of increased orders from customers in China, Europe, India and Vietnam. Sales volume for RSS was down 3.3% due to softening demand. Sales volume for LTX dropped 5.8% because the raw material costs that went up meant that we had to preserve our profit margin at the expense of sales volume. China still remained our largest market for NR products at 48.4% of our total sales volume, followed by the other markets in Asia at 25.4%, while Europe and the US markets accounted for 4.9% and 4.1% of total sales volume, respectively. Sales volume for the domestic market accounted for 17.1% of our total sales volume.

Sales volume for gloves in 2018 was 16,937 million pieces, up 12.4%* from 2017. Our market share in 2018 was 6% of global glove consumption. The growth in sales volume can be attributed to higher sales volume for latex gloves because our vertically integrated business model afforded us a competitive advantage in latex glove production and enabled us to expand our customer base to previously untapped markets like India, South Africa and South America. Latex gloves accounted for 61% of our production volume while nitrile accounted for 39%. The US remained our largest market for gloves with 26.7% of total sales volume, followed by Europe market at 23.8%. Sales volume for the domestic market accounted for 11.5% of total sales volume. Japan, China and India markets accounted for 8.9%, 8.0% and 4.1% of total sales volume, respectively.

*STGT, previously a joint venture, became our subsidiary in March 2017. Therefore, revenue from gloves in 2017 only took account of the revenue on the consolidated financial statements after 15 March 2017. Had revenue from gloves for the whole of 2017 been taken into account, our sales volume for gloves in 2018 would have been 3.6% higher than in 2017.

Gross Profit

Gross profit in 2018 was Baht 7,107.5 million, increasing 88.2% from Baht 3,776.4 million in 2017, as a result of a change in strategy with regard to NR products and effective raw material cost management. The demerger of our glove operations in 2017 also resulted in a change in marketing strategy and customer base. However, in 2018 we expanded our customer base to countries all over the world and implemented production cost management strategies, which led to improved profitability. Gross profit margin in 2018 was 9.7%, up from 4.2% in 2017. Taking account of the reversal of inventory allowance in the amount of Baht 172.3 million and realized gains from hedging transactions in the amount of Baht 90.0 million, our adjusted gross profit margin in 2018 would have been 11.2%, up from 5.4% in 2017.

Operating Profit

Operating profit in 2018 was Baht 3,050.2 million and operating profit margin was 4.2%, an improvement over operating loss of Baht 371.3 million in 2017. The reversal can be attributed to the effective raw material cost management in our NR operations and the improved profitability of our glove operations. Thanks to lower volatility of NR prices, we also recorded Baht 1,202.8 million in gains from hedging transactions 2018, up from Baht 100.3 million in 2017. We recorded Baht 252.2 million in loss on currency exchange, compared with Baht 522.1 million in gains on currency exchange in 2017. However, we also recorded Baht 90.0 million in realized gains from currency exchange.

Administrative and selling expenses dropped by Baht 611.2 million or 10.4% from 2017 because in 2017 there were non-recurring expenses in relation to the demerger and legal expenses in the amount of Baht 532 million. Had such expenses not been taken into account, our administrative expenses in 2018 would have been down by Baht 144.4 million or 6.0%. Selling expenses increased Baht 65.4 million or 1.9% as a result of Cess expense that went up in tandem with higher export volume and shipping costs that went up in tandem with oil prices on the global markets. Other income in 2018, consisting of income from insurance reimbursement, rent, and the provision of computer services, came in at Baht 239.5 million.

Share of Profit from Investments in Associates and Joint Ventures

Share of profits from investments in associates and joint ventures in 2018 was Baht 223.7 million, up Baht 93.9 million or 72.3% from 2017 on the strength of a 12.4% growth in profit from the high-pressure hydraulic hose joint venture and the NR joint venture that returned to profit after recording a loss in 2017.

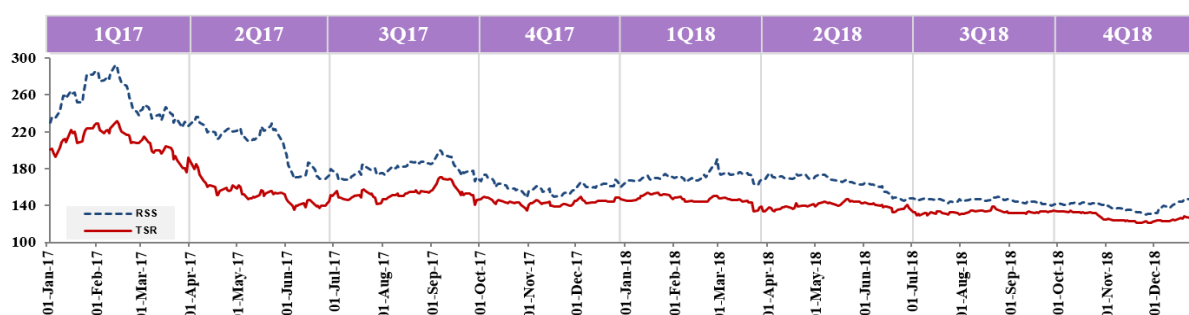
Profit attribute to owners of the Company

Net profit in 2018 was Baht 2,064.4 million, a reversal of Baht 1,437.1 million in net loss in 2017. The return to profit was driven by our selective selling strategy and effective raw material cost management in our NR operations, which led to improved profitability. We also fully recognized revenue from our glove operations in 2018, in comparison with 2017 when the demerger was completed on 16 March 2018. Profit before interest and taxes (EBIT) in 2018 was Baht 3,273.9 million, compared with a loss of Baht 241.5 million in 2017. Finance costs went down Baht 269.4 million or 23.4% because of a decrease in short-term borrowings as a result of lower NR prices. However, tax expenses were Baht 220.4 million higher as a result of an increase in net profit.

As of 31 December 2018, inventory balance of the Company at net realisable value (NRV), for only RSS, LTX, and TSR, had Baht 209.3 million surplus from inventories at lower of cost or net realisable value)NRV(. Under Thai Financial Reporting Standards, such surplus from inventories are not allowed to be recognized in the profit and loss until the inventories are actually sold. The amount of such difference changes over time depending on the actual price at the time of sale.

Key Factors Affecting the Company's Operations

1. Volatility of Natural Rubber Price



Daily Price Movement of TSR20 and RSS3 at SICOM

Our revenue and profitability are directly affected by the volatility of NR prices, which, in turn, are affected by NR supply and demand imbalance. NR oversupply generally leads to lower NR prices, which would make the average selling prices of the NR products that we sell move lower. In 2018, NR prices continued to come under pressure from the oversupply that lingered from 2017, with prices of TSR20 moving down in every quarter. The average price of TSR20 in 2018 was 136.5 cent/kg, down 17.1% from 2017, while the lowest price was 121.2 cent/kg reached during 4Q18, which coincided with the harvest season in Thailand (a four-month period from November to February of every year).

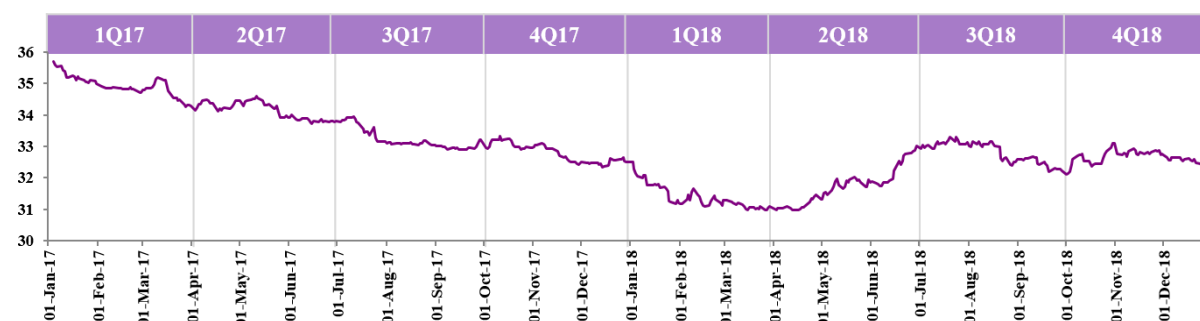
The factors that can affect NR price movements include 1) the global economy, which has a direct impact on the automotive and tire industries; 2) NR supply and demand; 3) currency fluctuations, especially as they concern US dollar and Japanese Yen, the currencies in which NR is traded, as well as the currencies of such major NR-exporting countries as Thai Baht, Indonesian Rupiah and Malaysia Ringgit; 4) oil prices, as NR and synthetic rubber, which is derived from crude oil, are substitute products; and 5) the government policies of the major NR-exporting countries.

Price Movement of TSR20 and RSS3 at Singapore Commodity Exchange Limited (SICOM) during 2017-2018

(Unit : US Cent/ Kg.)	RSS3			TSR20		
	2018	2017	%Change	2018	2017	%Change
Q1 Average	171.2	254.5	-32.7%	146.5	209.4	-30.0%
Q2 Average	164.6	204.8	-19.6%	140.0	152.8	-8.4%
Q3 Average	145.4	180.9	-19.6%	132.9	153.7	-13.5%
Q4 Average	139.7	159.8	-12.6%	126.7	143.7	-11.8%
Yearly Average	155.1	199.8	-22.4%	136.5	164.7	-17.1%
Closing price as at 31 December	148.5	160.6	-7.5%	124.8	146.9	-15.0%

The volatility of NR prices also affect the profitability of our glove operations because 61% of the gloves that we produce and distribute are latex gloves.

2. Foreign exchange rate



Historical Exchange Rate of Thai Baht against US dollar

The fluctuations of Thai Baht and US Dollar directly affect our revenue since approximately 79.7% of our total revenue are denominated in US Dollars, while our financial reporting currency is Thai Baht. We therefore utilize financial derivatives to manage our currency risk and their mark-to-market values will be recognized as unrealized foreign exchange gain or loss.

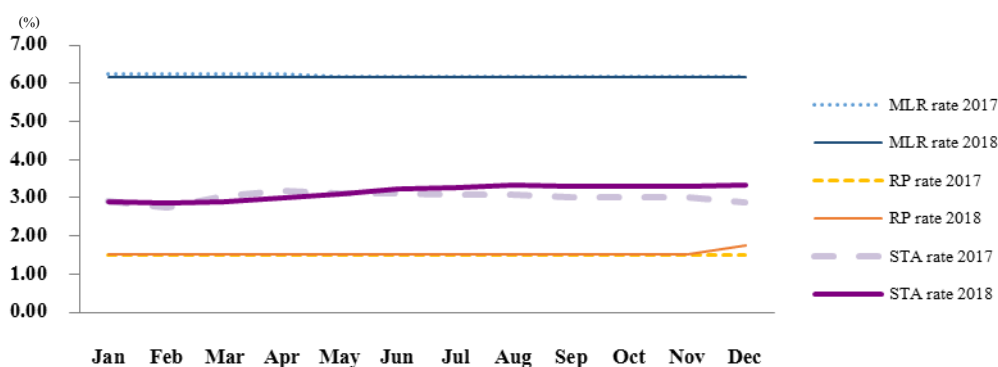
In 2018, Thai Baht moved up 4.8% against US Dollar, from an average of 33.77 Baht/US dollar in 2017 to 32.14 Baht/US dollar in 2018. During 2018, there was high volatility from quarter to quarter as a result of capital flows following the interest rate increase by the Federal Reserve. As a result, we recorded Baht 252.2 million in foreign exchange loss in 2018, a reversal of Baht 522.1 million in gains on foreign exchange in 2017.

3. Finance costs

The key factors affecting our finance costs are interest rate, NR prices, sales volume and currency exchange movements. In 2018, our interest expenses went down from 2017 on account of a decrease in short-term borrowings to support raw material purchasing, even though we recorded foreign exchange loss in relation to our

US dollar and Rupiah-denominated loans in the amount of Baht 208.3 million. As a result, our overall finance costs decreased 23.3% from Baht 1,156.4 million in 2017 to Baht 887.0 million in 2018.

The graph below illustrates that our average interest rate during 2017-2018 was lower than the average Minimum Loan Rate (MLR) of three large commercial banks, Bangkok Bank, Kasikorn Bank, and Siam Commercial Bank.



STA Effective Interest Rate vs. Average MLR Rate

4. Government Policy

Policies issued by the governments of Thailand and other major NR-exporting countries may benefit or negatively affect our operations. For instance, in a joint effort to combat low NR prices, the governments of Thailand, Indonesia and Malaysia, the three major NR-producing countries, agreed to the Agreed Export Tonnage Scheme (AETS) in 2010 to 2012. In 2018, the three governments again imposed a quota of 350,000 tons of rubber exports during the period from January to March. The Thai government has also come up with various measures in an attempt to solve the problem of low NR prices, such as the establishment of the Thai Rubber Fund Company Limited, the promotion of domestic consumption of natural rubber, and the inclusion of natural rubber in the list of commodities to be regulated by the Ministry of Commerce. It has also attempted to reduce NR supply by encouraging the cutting down of rubber trees and the cessation of rubber tapping. These policies may cause domestic NR prices to be inconsistent with NR prices on the global markets or cause our sales volume to be inconsistent with global NR demand.

Our gloves operations are also affected by policies such as the ban issued by the US Food and Drug Administration on the use of powdered medical gloves, which could lead to shifting in demand for latex gloves to powder-free latex gloves or nitrile gloves.

Business Segmentation Analysis

Revenue breakdown by product segment (Baht million)

	FY 2018	FY 2017	% YoY
TSR	50,008.1	63,183.1	-20.9%
%	68.0%	70.7%	
Gloves*	11,786.3	9,858.7	19.6%
%	16.0%	11.0%	
RSS	6,816.0	9,653.1	-29.4%
%	9.3%	10.8%	
LTX	4,537.1	6,285.5	-27.8%
%	6.2%	7.0%	
Other**	345.3	406.6	-15.1%
%	0.5%	0.5%	
Total	73,492.8	89,387.0	-17.8%

Note:

* In March 2017, Sri Trang Gloves (Thailand) has become our subsidiary (previously it was an joint venture company). The revenues from examination glove products therefore have been recorded in the consolidated financial statement after 15 March 2017 onwards.

**Comprises revenue from (i) the sale of rubber wood and wood packing product (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 and (iii) the sale of gloves

Technically Specified Rubber (TSR)

Revenue from TSR, which accounted for 68.0% of total revenue, dropped 20.9% from 2017 as a result of the average selling price that went down 22.8% alongside NR prices on the global markets, while sales volume slightly grew by 2.5% on the back of growth in China, India and Europe. Thanks to our selective selling strategy and effective raw material cost management, gross profit for TSR in 2018 rose 159.5% from 2017 and gross profit margin also went up considerably.

Gloves

Revenue from gloves, which accounted for 16.0% of total revenue, rose 19.6% from 2017 on the back of a growth in both sales volume and average selling price. Sales volume went up 12.4%* on the back of increased demand from South America, India, China, Korea and Thailand. The average selling price went up 6.4% because prices of synthetic rubber, the primary raw material in nitrile glove production, moved higher alongside oil prices on the global market, even though prices of concentrated latex, the primary raw material in latex glove production, went down.

Thanks to our vertically integrated business model, gross profit for gloves in 2018 rose by 86.3% from 2017 and gross profit margin was comparable with those of the world's leading glove producers.

**STGT, previously a joint venture, became our subsidiary in March 2017. Therefore, revenue from gloves in 2017 only took account of the revenue on the consolidated financial statements after 15 March 2017. Had revenue from gloves for the whole of 2017 been taken into account, our sales volume for gloves in 2018 would have been 3.6% higher than in 2017.*

Ribbed Smoked Sheet (RSS)

Revenue from RSS, which accounted for 9.3% of total revenue, dropped 29.4% from 2017 as a result of a 27.0% decline in average selling price, which fell in tandem with NR prices on the global markets, and sales volume that also went down 3.3% due to a decrease in export volume. Because of the decline in both average selling price and sales volume, gross profit for RSS in 2018 was down 16.0% from 2017. But gross profit margin went up thanks to improved management of selling and raw material costs.

Concentrated Latex (LTX)

Revenue from LTX, which accounted for 6.2% of total revenue, dropped 27.8% from 2017 as a result of a 23.4% decline in average selling price and a 5.8% drop in sales volume. In 2018, we implemented our selective selling strategy and cost management and chose to maintain profitability at the expense of sales volume. Therefore, even though gross profit dropped by 13.9% alongside the average selling price and sales volume, our gross profit margin actually improved when compared with 2017.

Consolidated Balance Sheet***Current assets***

Current assets as of 31 December 2018 amounted to Baht 28,839.5 million, representing 42.8% of total assets and down by Baht 4,509.9 million or 15.9% from the previous year. The decrease in current assets primarily resulted from inventories that declined by Baht 4,811.6 million or 28.1% due to lower inventory levels and lower NR prices at the end of 2018, compared with at the end of 2017. In accordance with the generally accepted accounting standards, inventories on the financial statements are stated at cost or net realizable value, whichever is lower (Please find more details in Note to the Consolidated and Separate Financial Statements under item 4 and 9). Moreover, a decrease in trade accounts receivable and other receivables in the amount of Baht 1,520.3 million as a result of a 23.2% drop in the average selling price of NR products, in line with NR prices on the global markets, also contributed to the decrease in current assets, even though sales volume slightly went up by 1.0%. However, cash and cash equivalents increased by Baht 1,955.4 million.

Non-current assets

Non-current assets as of 31 December 2018 amounted to Baht 31,908.6 million, representing 57.2% of total assets and increasing by Baht 550.2 million or 1.8% from the previous year. The increase in non-current assets primarily consists of an increase in property, plants and equipment in the amount of Baht 266.4 million (net of depreciation and write-off) as a result of the capacity expansion of our TSR, LTX and Glove facilities. An increase in rubber plantations in the amount of Baht 219.1 million also contributed to the increase in non-current assets.

Current liabilities

Current liabilities as of 31 December 2018 amounted to Baht 20,772.0 million, representing 67.8% of total liabilities and down by Baht 5,084.5 million or 19.7% from the previous year. The decrease in current liabilities primarily resulted from a decrease in short-term borrowings from financial institutions in the amount of Baht 6,169.6 million as lower NR prices reduced the need for short-term borrowings as working capital to support the purchase of raw materials. However, borrowings that will be due within one year increased by Baht 1,052.4 million and primarily consist of long-term borrowings from financial institutions in the amount of Baht 1,260 million and debentures that will mature in May 2019 in the amount of Baht 810 million.

Non-current liabilities

Non-current liabilities as of 31 December 2018 amounted to Baht 9,876.4 million, representing 32.2% of total liabilities and down by Baht 698.1 million or 6.6% from the previous year. The decrease in non-current liabilities primarily resulted from a decrease in debentures that will mature in May 2019 in the amount of Baht 810 million (There still remain debentures that will mature in May 2021 in the amount of Baht 1,455 million). At the same time, long-term borrowings from financial institutions (not including those that will be due within one year) amounted to Baht 7,344.4 million, up Baht 150.7 million from the end of 2017. Such borrowings are used to support the capacity expansion of our glove facilities.

Shareholders' equity

Shareholders' equity as of 31 December 2018 amounted Baht 25,099.8 million, increasing by Baht 1,822.9 million or 7.8% from the previous year. The increase in shareholders' equity primarily resulted from unappropriated retained earnings in the amount of 1,853.7 million from the net profit that increased during the year.

Research and development (R&D) expenditure

In 2018, we had Baht 47.0 million in expenses associated with research and development in relation to all our products, from TSR, LTX, RSS to Gloves. Such expenses went toward improving the production efficiency and product quality to satisfy customer demand and also toward the sustainable environmental management.

The National Science and Technology Development Agency (NSTDA) also approved in 2018 that two of our R&D projects satisfy the criteria laid out in a Ministry of Finance Announcement regarding taxation. As a result, R&D expenses in the amount of Baht 0.9 million were exempt from corporate taxation and we were able to record 3 times the amount, equalling Baht 2.8 million, as expenditure.

Source of Funds

In 2018, our capital expenditure was Baht 2,780.2 million, which primarily consisted of Baht 1,339.9 million in expenditure for the capacity expansion of our TSR and LTX facilities and the maintenance of our NR facilities and Baht 1,232.2 million in expenditure for the capacity expansion of our gloves facilities. Our primary sources of funds were cash and long-term borrowings from financial institutions.

The Ability to Service Debt and Comply with Loan Covenants

Short-term and long-term borrowings from financial institutions, debentures and financial leases as of 31 December 2018 amounted to Baht 26,527.2 million (Please find details about payment term, interest rate and ending balance in each foreign currency in Note to the Consolidated and Separate Financial Statements under item 22). In February 2018, Baht 600 million in mature debentures was redeemed.

Our net debt to equity ratio was at 1.05 times as of 31 December 2018, dropping from 1.49 times in 2017. The decrease resulted from interest payments associated with short-term and long-term borrowings that went down by Baht 5,778.9 million and cash that increased by Baht 1,955.4 million.

Financial Ratios

Current ratio

Current ratio is calculated by dividing total current assets by total current liabilities. Our current ratio as of 31 December 2017 and 31 December 2018 was 1.10 times and 1.15 times, respectively. The increase in current ratio primarily resulted from short-term borrowings from financial institutions that went down by Baht 6,169.6 million in tandem with lower NR prices.

Fixed asset turnover ratio

Fixed asset turnover ratio is calculated by dividing the sales of goods and services by the average value of property, plants and equipment (net). As of 31 December 2017 and 31 December 2018, our fixed asset turnover ratio was 4.12 and 2.80 times, respectively. The decrease in fixed asset turnover ratio can be attributed to revenue that went down as a result of lower NR prices on the global markets while the average value of property, plants and equipment went up as a result of the capacity expansion.

Return on assets ("ROA")

ROA is calculated by dividing net profit (of the parent company) for the year by the average value of total assets. As of 31 December 2017 and 31 December 2018, our ROA was -2.48% and 3.58%, respectively. The increase in ROA resulted from our profitability in 2018, compared with a net loss in 2017, as well as from the average value of total assets that dropped as a result of inventories and account receivables that went down because of lower NR prices on the global markets.

Return on equity ("ROE")

ROE is calculated by dividing net profit (of the parent company) for the year by the average total equity. As of 31 December 2017 and 31 December 2018, our ROE was -6.65% and 8.53%, respectively. The decrease in ROE resulted from our improved financial performance.

Debt to equity ratio ("D/E")

D/E is calculated by dividing total debt by total equity. As of 31 December 2017 and 31 December 2018, our D/E was 1.57 and 1.22 times, respectively. The decrease in D/E resulted from reduced short-term borrowings from financial institutions to support raw material purchasing.

Business Outlook**Rubber Industry**

	2017	2018	2019F
%Global Growth (GDP)	3.7%	3.7%	3.7%
<i>China (the world's largest NR consumer)</i>	6.9%	6.6%	6.2%
<i>Europe (the world's second largest NR consumer)</i>	2.4%	2.0%	1.9%
<i>India (the world's third largest NR consumer)</i>	6.7%	7.3%	7.4%
Vehicle production (mil. Unit)	99	100	102
<i>% change</i>	2.8%	1.7%	1.9%
Tire production (mil. Unit)	1,877	1,933	1,992
<i>% change</i>	2.2%	3.0%	3.1%
NR consumption ('000 tons)	13,218	13,867	14,231
<i>% change</i>	4.3%	4.9%	2.6%

Source: International Rubber Study Group (IRSG), The World Rubber Industry Outlook, Review and Prospects to 2027, December 2018 and Rubber Industry Report (October – December 2018)

The growth of the global economy is the key factor affecting NR demand. Because tire manufacturers account for 71% of global NR demand, the growth in vehicle production and tire manufacturing directly has an effect on NR demand growth. According to IRSG report, in 2018, demand from tire manufacturers increased 4.9% on the back of growth in the replacement market. At the same time, NR demand from other sectors grew by 5.2%, mainly on account of demand from the glove industry. In 2018, demand for synthetic rubber, which can be used in place of natural rubber in the production of some products, grew by only 1.7%, a much lower rate than NR growth, as low NR prices prompted tire manufacturers in some countries as well as consumers in other industries to increase the share of NR in production.

NR demand is expected to be flat in 2019, increasing only slightly by 2.6% from 2018, due to the economic slowdown in China, the world's largest NR consumer, despite an expected moderate growth in vehicle production and tire manufacturing globally. At the same time, NR demand from other industries is expected to grow by 4.4%. Movements of NR prices on the global markets are also influenced by such other factors as speculative activities on the futures markets, including SICOM, TOCOM and the Shanghai Futures (SHFE), which may cause NR prices to not move in the same direction as the fundamentals, as well as the weather conditions.

Demand & Supply Balance***World Natural Rubber production and consumption during 2017 - 2019***

Unit : 000'tons	2017	2018	2019F
NR production	13,559	13,901	14,262
% change	7.6%	2.5%	2.6%
NR consumption	13,218	13,867	14,231
% change	4.3%	4.9%	2.6%
NR Balance	341	34	31

Source: International Rubber Study Group (IRSG), *The World Rubber Industry Outlook, Review and Prospects to 2027*, December 2018

According to the World Rubber Industry Outlook, Review and Prospects to 2027, published by the International Rubber Study Group (IRSG) in December 2018, the global NR demand in 2018 was 13,867,000 tons, up 4.9% from 2017. The increase was driven by the growth of the tire industry, from both the Original Equipment Manufacturers (OEM) and the Replacement Equipment Manufacturers (REM), which together accounted for about 71% of global NR demand. The increased consumption of concentrated latex on the back of the steady growth of the glove industry also contributed to the overall growth in NR demand. Meanwhile, the global NR supply went up 2.5% to 13,901,000 tons in 2018. The supply growth mainly came from Thailand, PRC, Vietnam, and the CAMAL* countries.

According to IRSG report, global NR demand is projected to increase by 2.6% to 14,231,000 tons in 2019, with China remaining the world's largest consumer, followed by the European countries, India, the US and Thailand. But the growth in demand from India and Malaysia is expected to be higher than the overall growth rate, driven by increased consumption by the tire manufacturers and glove producers respectively. Meanwhile, the IRSG forecasted that global NR supply will increase by 2.6% to 14,262,000 tons in 2019, driven by supply from the CAMAL* countries. Supply from Thailand and Indonesia, the world's largest and second-largest NR-producing countries, is expected to be flat as replacement planting has remained steady while new planting has been steadily declining as a result of consistently low NR prices.

In 2019, NR supply from newly mature rubber trees is expected to grow at a slower rate as there has been less planting since 2013, when NR prices started to drop to lower levels. Moreover, the prolonged period of low NR prices has prompted rubber farmers to switch to more profitable crops, delay planting or replacement planting, and reduce the tapping frequency. The extended period of low NR prices has also dampened farmer interest in the rubber industry. Meanwhile, NR demand is still growing in tandem with the tire industry. The IRSG anticipates that NR supply surplus will hover around 31,000 tons in 2019, slightly down from 34,000 tons in 2018.

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

Our business strategy and progress of expansion plan**Upstream Business – 8,000-odd hectares of land already secured for rubber plantations**

As of 30 September 2018, we owned approximately 7,500 hectares 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.

The Company estimate that, in 2018, rubber trees that are ready to be tapped would account for 3% of total rubber trees, a development that would benefit our core business in the midstream.

Midstream Business – keeping profitability and 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 manufacturers from overseas who have set up production base in Thailand and consumers of concentrated latex worldwide, with an eye toward achieving “STA 20”, that is, to capture a market share of 20% of “*global NR consumption*” (In 2017, our market share was 10% of global NR consumption.).

Sri Trang Group had a total 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one in Myanmar. Our engineering capacity stood at 2.86** million tons per annum, up 240,000 tons from 2017, at the end of 2018. 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. As a result of this, our engineering capacity remains the highest in the industry.

*Note: **The engineering capacity is derived from the specifications certified by the supplier of the processing machinery. Our engineering capacity includes the engineering capacity of Thaitech Rubber Corporation Limited.*

Downstream Business – aiming to rank among the world’s top three 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 2018, we had a market share of 6% 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 Public Company Limited (“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: *MARGMA Industry Brief 2018 on the Rubber Glove Industry*