



Date 14 November 2017

Subject Management Discussion and Analysis for the 3-month and 9-month period ended 30 September 2017

To Managing Director of The Stock Exchange of Thailand

Thai Nippon Rubber Industry Public Company Limited (“The Company”) would like to report the operating performance for the 3-month period and 9-month period ended 30 September 2017 as follows: -

## ANALYSIS AND EXPLANATION OF MANAGEMENT

### Explanation and analysis of financial position and operating performance

#### Statements of Comprehensive Income

Statements of Comprehensive Income (Million Baht)	For the 3-month period ended 30 September		Comparison		For the 9-month period ended 30 September		Comparison	
	2017	2016	2017 & 2016		2017	2016	2017 & 2016	
	Amount	Amount	Amount	Percent	Amount	Percent	Amount	Percent
Revenue from sales of products	356.4	342.7	13.7	4.0	933.7	934.2	(0.5)	(0.1)
Cost of goods sold	(263.0)	(257.6)	(5.4)	2.1	(700.4)	(661.8)	(38.6)	5.8
<b>Gross profit</b>	<b>93.4</b>	<b>85.1</b>	<b>8.3</b>	<b>9.8</b>	<b>233.3</b>	<b>272.4</b>	<b>(39.2)</b>	<b>(14.4)</b>
Other revenue	2.4	(0.9)	3.3	(350.3)	6.0	3.2	2.8	86.6
<b>Profit before expenses</b>	<b>95.8</b>	<b>84.1</b>	<b>11.6</b>	<b>13.8</b>	<b>239.2</b>	<b>275.6</b>	<b>(36.4)</b>	<b>(13.2)</b>
Selling expense	(24.4)	(12.7)	(11.7)	92.4	(71.6)	(48.7)	(22.9)	47.0
Administrative expense	(24.7)	(20.8)	(3.9)	18.6	(64.3)	(66.6)	2.3	(3.5)
Other profit (loss)	(0.9)	(0.5)	(0.5)	103.4	9.4	6.6	2.7	41.5
Finance costs	(0.3)	(2.9)	2.6	(89.6)	3.5	(7.5)	11.1	(147.1)
<b>Total expenses</b>	<b>(50.4)</b>	<b>(36.9)</b>	<b>(13.5)</b>	<b>36.6</b>	<b>(123.0)</b>	<b>(116.2)</b>	<b>(6.8)</b>	<b>5.8</b>
<b>Profit before income tax</b>	<b>45.4</b>	<b>47.3</b>	<b>(1.9)</b>	<b>(3.9)</b>	<b>116.3</b>	<b>159.4</b>	<b>(43.2)</b>	<b>(27.1)</b>
Income tax	(0.6)	(0.1)	(0.4)	342.3	(1.4)	(1.4)	(0.0)	2.7
<b>Net profit for the year</b>	<b>44.8</b>	<b>47.2</b>	<b>(2.3)</b>	<b>(4.9)</b>	<b>114.9</b>	<b>158.1</b>	<b>(43.2)</b>	<b>(27.3)</b>
	12.6	13.8			12.3	16.9		

#### Revenue from sales of products

Total Revenue	For the 3-month period ended 30 September				Comparison		For the 9-month period ended 30 September				Comparison	
	2017		2016		2017 & 2016		2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Sales volume / revenue from sales of condoms	347.5	97.5	333.6	97.3	13.9	4.2	905.2	97.0	901.3	96.5	3.9	0.4
Revenue from sales of lubricants	8.9	2.5	8.5	2.5	0.3	3.6	28.2	3.0	32.1	3.4	(3.9)	(12.3)
Other revenue	0.0	0.0	0.6	0.2	-0.5	-92.5	0.3	0.0	0.8	0.1	(0.5)	(64.9)
<b>Total revenue</b>	<b>356.4</b>	<b>100.0</b>	<b>342.7</b>	<b>100.0</b>	<b>13.7</b>	<b>4.0</b>	<b>933.7</b>	<b>100.0</b>	<b>934.2</b>	<b>100.0</b>	<b>(0.5)</b>	<b>(0.1)</b>



Revenue from sales of condoms and lubricants	For the 3-month period ended 30 September				Comparison		For the 9-month period ended 30 September				Comparison	
	2017		2016		2017 & 2016		2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Domestic sales	37.3	10.5	39.1	11.4	(1.8)	-4.5	88.4	9.5	89.5	9.6	(1.1)	-1.2
Export sales	319.1	89.5	303.1	88.6	16.0	5.3	845.0	90.5	843.9	90.4	1.1	0.1
<b>Total revenue from sales of condoms and lubricants</b>	<b>356.4</b>	<b>100.0</b>	<b>342.2</b>	<b>100.0</b>	<b>14.2</b>	<b>4.2</b>	<b>933.4</b>	<b>100.0</b>	<b>933.4</b>	<b>100.0</b>	<b>(0.0)</b>	<b>(0.0)</b>

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded revenue from condoms and lubricants of 356.4 million baht and 342.2 million baht respectively (which was higher by 14.2 million baht or 4.2%) comprising mainly revenue from sales of condoms accounting for 97.5% and 97.3% respectively. Such higher revenue was derived from higher revenue from the Tender business, the Company had lower revenue from the OEM business and the products under the Company's trademark.

For the 9-month period ended 30 September 2017 and 2016, the Company recorded revenue from sales of condoms and lubricants at the same level as the previous year with the amount of 933.4 million baht. Note that revenue from sales of condoms is accounted for 97.0% and 96.5% respectively.

#### Revenue by business segment

Revenue by business segment	For the 3-month period ended 30 September				Comparison		For the 9-month period ended 30 September				Comparison	
	2017		2016		2017 & 2016		2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Revenue from the production and distribution of condoms and lubricants under the company's trademark	37.7	10.6	39.0	11.4	(1.3)	(3.4)	85.3	9.1	81.1	8.7	4.2	5.2
Revenue from OEM business for production and distribution of condoms and lubricants	244.4	68.6	263.6	77.0	(19.2)	(7.3)	693.8	74.3	719.6	77.1	(25.8)	(3.6)
Revenue from Tender business	74.3	20.8	39.5	11.5	34.8	88.1	154.3	16.5	132.8	14.2	21.5	16.2
<b>Total revenue from sales</b>	<b>356.4</b>	<b>100.0</b>	<b>342.2</b>	<b>100.0</b>	<b>14.2</b>	<b>4.2</b>	<b>933.4</b>	<b>100.0</b>	<b>933.4</b>	<b>100.0</b>	<b>(0.0)</b>	<b>(0.0)</b>

#### Revenue from the production and distribution of condoms and lubricants by business segment

Revenue from the production and distribution of condoms and lubricants business under the Company's trademark comprising ONETOUCH™ and Niptex™.

Sales by business segment (condoms and lubricants under the Company's trademark)	For the 3-month period ended 30 September				Comparison		For the 9-month period ended 30 September				Comparison	
	2017		2016		2017 & 2016		2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Domestic sales	29.9	25.6	31.9	21.4	(2.0)	(6.3)	67.5	20.7	66.3	16.2	1.3	1.9
Overseas sales	7.2	6.2	6.7	4.5	0.5	8.1	16.7	5.1	13.8	3.4	2.9	20.9
<b>Total sales - condoms and lubricants under the Company's trademark</b>	<b>37.2</b>	<b>31.8</b>	<b>38.6</b>	<b>25.9</b>	<b>(1.5)</b>	<b>(3.8)</b>	<b>84.2</b>	<b>25.8</b>	<b>80.1</b>	<b>19.6</b>	<b>4.2</b>	<b>5.2</b>

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded lower revenue by 1.3 million baht or 3.4% compared to the same period in the previous year which was due mainly to the following:

1. Lower domestic sales of condoms under the brand ONETOUCH™ by 2.0 million baht or 6.3% given that in the 2<sup>nd</sup> quarter of fiscal yearend 2017 the customers had purchased the products in large quantities for



stocks and product distribution following sluggishness in the market from the 4<sup>th</sup> quarter of fiscal yearend 2016 to the 1<sup>st</sup> quarter of fiscal yearend 2017, bearing effect on lower orders in the 3<sup>rd</sup> quarter of fiscal yearend 2017 compared to the same period in the previous year.

For the 9-month period ended 30 September 2017 and 2016, the Company recorded higher revenue by 1.3 million baht or 1.9% compared to the same period in the previous year.

2. Higher overseas sales by 0.5 million baht or 8.1% as the Company had ventured into a new market in Singapore as well as more orders under the Brand ONETOUCH™ from Germany and Switzerland.

For the 9-month period ended 30 September 2017 and 2016, the Company recorded higher overall revenue by 2.9 million baht or 20.9% compared to the same period in the previous year from new customers.

Revenue from the OEM business

Sales - OEM by Market	For the 3-month period ended 30 September				Comparison		For the 9-month period ended 30 September				Comparison	
	2017		2016		2017 & 2016		2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
American market group	60.0	24.5	26.6	10.1	33.3	125.1	227.6	32.8	85.8	11.9	141.8	165.2
African market group	36.1	14.8	41.5	15.8	(5.4)	(13.0)	79.9	11.5	121.4	16.9	(41.5)	(34.2)
Asian market group	116.9	47.8	148.9	56.5	(32.0)	(21.5)	326.2	47.0	408.0	56.7	(81.9)	(20.1)
European and Oceania market group	31.4	12.8	46.6	17.7	(15.2)	(32.6)	60.1	8.7	104.3	14.5	(44.2)	(42.3)
<b>Total Sales - OEM by Market</b>	<b>244.4</b>	<b>100.0</b>	<b>263.6</b>	<b>100.0</b>	<b>(19.2)</b>	<b>(7.3)</b>	<b>693.8</b>	<b>100.0</b>	<b>719.6</b>	<b>100.0</b>	<b>(25.8)</b>	<b>(3.6)</b>

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded lower revenue by 19.2 million baht or 7.3% which was due to lower sales to the African market group, Asian market group, European and Oceania market group despite higher sales to the American market group.

For the 9-month period ended 30 September 2017 and 2016, the Company recorded lower revenue by 25.8 million baht or 3.6% which was due mainly to sluggishness of the African market group, European and Oceania market group especially the Asian market group owing to delayed orders from main customers in China. However, revenue from the American market group had increased as there was a new customer with rather strong purchasing power and in the meantime existing main customer had proportionately placed higher purchase orders.

Revenue from the Tender business

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded higher revenue by 34.8 million baht or 88.1%. And for the 9-month period ended 30 September 2017 and 2016, the Company recorded higher revenue by 21.5 million baht or 16.2% compared to the same period in the previous year. Such was due mainly to the Company having obtained higher Tender business compared to the previous year in the



African and the American market group. Moreover, there was higher quantity of products delivered to an NGO in the U.S. as per the long-term contract.

#### **Cost of Goods Sold**

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded cost of goods sold of 263.0 million baht and 257.6 million baht or 73.8% and 75.2% respectively. For the 9-month period ended 30 September 2017 and 2016, the Company recorded cost of goods sold of 700.4 million baht and 661.8 million baht or 75.0% and 70.8% respectively.

#### **Gross Profit and Gross Profit Margin**

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded gross profit of 93.4 million baht and 85.1 million baht or gross profit margin of 26.2% and 24.8% respectively.

For the 9-month period ended 30 September 2017 and 2016, the Company's gross profit was 233.3 million baht and 272.4 million or 25.0% or 29.2% respectively. Such lower gross profit was due to the following:

1. Higher average price for the 9 months of fiscal yearend 2017 of 60% concentrated latex as the market price had increased compared to the same period in the previous year. However, average price for the 3<sup>rd</sup> quarter of fiscal yearend 2017 has decreased from the 1<sup>st</sup> half of fiscal yearend 2017 and is continuously trending downward in the 4<sup>th</sup> quarter of fiscal yearend 2017.

2. Change in the sales mix of condoms as the proportion from Tender business had increased from 15% for the 9-month period of fiscal yearend 2016 to 17% over the same period.

3. The appreciation of baht against USD compared to the same period in the previous year.

4. Lower average selling price of products for Tender business in the 3<sup>rd</sup> quarter and the 9-month period for fiscal yearend 2017 compared to the same period in the previous year.

5. Higher production volumes for the 9-month period of fiscal yearend 2017 compared to the same period in the previous year which resulted in lower average fixed cost per unit.

#### **Other Revenue**

Other revenue for the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016 was higher by 3.3 million baht and for the 9-month period ended 30 September 2017 and 2016 higher by 2.8 million baht respectively. The Company's other revenue comprised mainly of (1) revenue from sale of scrap, (2) interest income from financial institutions and loans, (3) revenue from money returns from provident fund and (4) others.



### **Selling Expense**

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded selling expense of 24.4 million baht and 12.7 million baht respectively which was higher by 11.7 million baht or 92.4% due mainly to higher advertising expenses, commission expenses and marketing and promotional expenses for the businesses under the brand ONETOUCH™ and transportation costs

For the 9-month period ended 30 September 2017 and 2016, the Company recorded selling expense of 71.6 million baht and 48.7 million baht respectively which was higher by 22.9 million baht or 47.0% due mainly to the following: -

1. Advertising expenses, commission expenses and marketing expenses for the businesses under the brand ONETOUCH™ supporting the plan to increase market share.
2. Higher transportation costs which resulted from higher proportion of products delivered to customers with the condition that included transportation costs.
3. Higher overseas travel expenses for customer meeting/visits and consulting expenses for the Tender business.

### **Administrative Expense**

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded administrative expense of 24.7 million baht and 20.8 million baht respectively which was higher by 3.9 million baht or 18.6% due mainly to the Company having other consulting fees and an increase in the number of management to support overseas business expansion.

For the 9-month period ended 30 September 2017 and 2016, the Company recorded administrative expense of 64.3 million baht and 66.6 million baht respectively which was lower by 2.3 million baht or 3.5% due mainly to reversal of provision of doubtful loss upon full payment of money owed by the customer.

### **Other Profit (Loss)**

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded other profit (loss) of 0.8 million baht and 0.5 million baht respectively which was higher by 0.3 million baht or 80.1%. And for the 9-month period ended 30 September 2017 and 2016, the Company recorded other profit (loss) of 9.4 million baht and 6.6 million baht respectively which was higher by 2.7 million baht or 41.5% due mainly to realization of gain on forward exchange contract.



### Finance Costs

1. Interest expense from loans from financial institutions for the 9-month period ended 30 September 2017 amounting to 2.4 million baht which was lower by 8.5 million baht compared to the same period in the previous year.

2. Gain from exchange rate on loans from financial institutions for the 9-month period ended 30 September 2017 amounting to 6.0 million baht which was higher by 2.5 million baht from baht appreciation compared to the same period in the previous year.

### Net Profit and Net Profit Margin

For the 3<sup>rd</sup> quarter ended 30 September 2017 and 2016, the Company recorded net profit of 44.8 million baht and 47.2 million baht respectively which was lower by 2.3 million baht or 4.9%. And for the 9-month period ended 30 September 2017 and 2016, the Company recorded net profit of 114.9 million baht and 158.1 million baht respectively which was lower by 43.2 million or 27.3%.

As a whole, the Company recorded lower net profit compared to the same period in the previous year which was due to lower gross profit and higher selling expense despite the company having lower finance costs and adjustment to lower doubtful loss upon full payment of money owed for a long time by its debtor.



## Financial Position

 Below table shows the Company's financial position for the 3<sup>rd</sup> quarter ended 30 September 2017 and 31 December 2016.

Balance Sheet	As of 30 September		As of 31 December		Comparison	
	2017		2016		2017 & 2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	Million Baht		Million Baht		Million Baht	
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	136.1	10.6	27.4	2.3	108.7	397.5
Short-term loan to and accrued interest from related company	-	-	-	-	-	-
Trade and other accounts receivable (net)	448.0	34.8	386.7	32.2	61.3	15.9
Inventory (net)	155.8	12.1	132.5	11.0	23.3	17.6
Value added tax	12.3	1.0	78.9	6.6	(66.6)	(84.4)
<b>Total current assets</b>	<b>752.2</b>	<b>58.4</b>	<b>625.4</b>	<b>52.1</b>	<b>126.8</b>	<b>20.3</b>
<b>Non-current assets</b>						
Prepaid withholding tax	-	-	-	-	-	-
Loans to employee	0.8	0.1	0.5	0.0	0.4	76.1
Other long-term investments	-	-	-	-	-	-
Property, plant and equipment (net)	511.5	39.7	553.1	46.1	(41.5)	(7.5)
Intangible assets (net)	17.7	1.4	15.2	1.3	2.5	16.5
Deferred tax assets	3.6	0.3	3.7	0.3	(0.1)	(0.0)
Other non-current assets	2.4	0.2	2.2	0.2	0.2	9.8
<b>Total non-current assets</b>	<b>536.1</b>	<b>41.6</b>	<b>574.6</b>	<b>47.9</b>	<b>(38.5)</b>	<b>(6.7)</b>
<b>Total assets</b>	<b>1,288.3</b>	<b>100.0</b>	<b>1,200.1</b>	<b>100.0</b>	<b>88.2</b>	<b>7.4</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Short-term loans from financial institutions	7.2	0.6	101.2	8.4	(94.0)	(92.9)
Short-term loan from related company	-	-	-	-	-	-
Short-term loan from director	-	-	-	-	-	-
Trade and other accounts payable	212.7	16.5	103.6	8.6	109.0	105.2
Current portions of liability under hire purchase contract	0.1	0.0	0.1	0.0	-	-
Current portions of long-term loans from a financial institution	15.7	1.2	27.5	2.3	(11.7)	(42.7)
Accrued dividends	-	-	-	-	-	-
Accrued income tax	0.7	0.1	0.7	0.1	(0.1)	(0.1)
Other current liabilities	2.2	0.2	7.5	0.6	(5.3)	(71.0)
<b>Total current liabilities</b>	<b>238.5</b>	<b>18.5</b>	<b>240.6</b>	<b>20.0</b>	<b>(2.1)</b>	<b>(0.9)</b>
<b>Non-current liabilities</b>						
Liability under hire purchase contract	0.1	0.0	0.1	0.0	(0.0)	(30.0)
Long-term loans from a financial institution	13.9	1.1	24.0	2.0	(10.1)	(42.2)
Employee benefit obligations	33.5	2.6	32.9	2.7	0.6	1.9
Share subscription received in advance	-	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>47.5</b>	<b>3.7</b>	<b>57.0</b>	<b>4.8</b>	<b>(9.6)</b>	<b>(16.8)</b>
<b>Total liabilities</b>	<b>286.0</b>	<b>22.2</b>	<b>297.6</b>	<b>24.8</b>	<b>(11.6)</b>	<b>(3.9)</b>



Equity						
Share capital						
Authorised share capital						
300,000,000 ordinary shares of par Baht 1 each	300.0	23.3	300.0	25.0	-	-
1,920,000 ordinary shares of par Baht 100 each	-	-	-	-	-	-
Issued and fully paid-up share capital					-	-
300,000,000 ordinary shares of par Baht 1 each	300.0	23.3	300.0	25.0	-	-
1,920,000 ordinary shares of par Baht 100 each	-	-	-	-	-	-
Share premium (net)	549.1	42.6	549.1	45.8	-	-
Retained earnings					-	-
Appropriated - legal reserve	28.0	2.2	28.0	2.3	-	-
Unappropriated	127.2	9.9	27.4	2.3	99.9	364.9
Other components of equity (net)	(2.0)	(0.2)	(2.0)	(0.2)	0.0	(0.0)
<b>Total equity</b>	<b>1,002.3</b>	<b>77.8</b>	<b>902.4</b>	<b>75.2</b>	<b>99.9</b>	<b>11.1</b>
<b>Total liabilities and equity</b>	<b>1,288.3</b>	<b>100.0</b>	<b>1,200.1</b>	<b>100.0</b>	<b>88.2</b>	<b>7.4</b>

### Overview of Assets

As of 30 September 2017 and 31 December 2016, the Company recorded total assets of 1,288.3 million baht and 1,200.1 million baht respectively which was higher by 88.2 million baht or 7.4%. Such was due mainly to higher cash and cash equivalents and higher inventory (net) while the company recorded lower property, plant and equipment (net), lower intangible assets (Enterprise Resource Planning : ERP Software) and lower accrued value added tax.

### Liabilities

As of 30 September 2017 and 31 December 2016, the Company recorded total liabilities of 286.0 million baht and 297.6 million baht which was lower by 11.6 million baht or 3.9% due mainly to the following: -

1. Higher trade accounts payable and other payables from the Company changing its policy with respect to its transferring of money for payment to trade accounts payable from the last day of the month to the first day of the month and an increase in inventory level in preparation for the production to be delivered in the 4<sup>th</sup> quarter of fiscal yearend 2017. Furthermore, there were higher accumulated accrued bonuses and advance payments from customers.

#### 2. Short-term loans from financial institutions

As of 30 September 2017 and 31 December 2016, the Company recorded short-term loans from financial institutions of 7.2 million baht and 101.2 million baht which was lower by 94.0 million baht or 92.9%.

#### 3. Long-term loans from financial institutions



As of 30 September 2017 and 31 December 2016, the Company recorded long-term loans from financial institutions of 29.6 million baht and 51.5 million baht which was lower by 21.8 million baht or 42.4% resulting from the long-term loan repayment as scheduled.

#### **Shareholders' Equity**

As of 30 September 2017 and 31 December 2016, the Company's shareholders' equity was 1,002.3 million baht and 902.4 million baht respectively which was higher by 99.9 million baht or 11.1% from net profit for the 9-month period of fiscal yearend 2017 amounting to 114.9 million and dividend payment of 15.0 million baht.

#### **Summary of financial position**

The computation on financial statements for the 9-month period ended 30 September 2017 and the fiscal yearend ended 31 December 2016 has an important impact on the financial ratio as follows: -

- Debt-to-equity ratio (D/E) is lower from 0.33 time to 0.29 time due to lower total liabilities resulting from loan repayment.

- Basic earnings per share as of 30 September 2017 is equal to 0.38 baht per share (by computing from weighted common shares of 300,000,000 shares) and as of 30 September 2016 equal to 0.74 baht per share (by computing from weighted common shares of 214,725,275 shares) which was lower due to an increase in the Company's capital and lower net profit.

Please be informed accordingly.

Best Regards,

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Suwat Sukalapvanit

Chief Financial Officer

Authorized to disclose information

Thai Nippon Rubber Industry Public Company Limited