

23 February, 2018

Subject: Management Discussion & Analysis (MD&A) for the year 2017  
 Attention: The President  
 The Stock Exchange of Thailand

The Company wishes to present the Management Discussion & Analysis (MD&A) on the operating and financial status for the year 2017. The MD&A would enable the investors to better understand the Company and its subsidiaries' 2017 audited financial statements.

**An Analysis of Performance** \*

Analysis of Income

The Company and its subsidiaries recorded the total revenue of 19,403 MTHB of which 19,282 MTHB earned from sales revenue. The sales revenue increased by 3,623 MTHB or 23% comparing to the year 2016. The increment mostly derived from higher selling price across all products, particularly PVC, Caustic Soda and ECH, according to the market price trends caused by limited supply from China. The sales volumes also increased for all products, mainly as a consequence of higher Caustic Soda sales from lower EDC purchase plus greater ECH sales from the additional volume to China, Taiwan and Indian accounts. The share of domestic and export sales have no significant change comparing to the previous year.

Sales Revenues	2017		2016	
	MTHB	%	MTHB	%
<b>Domestic Sales</b>				
1. PVC Resins	5,418	28.1	5,885	37.6
2. Caustic Soda	4,017	20.8	2,225	14.2
3. VCM	1,667	8.6	1,516	9.7
4. ECH	649	3.4	570	3.6
5. Others	79	0.4	61	0.4
<b>Total Domestic Sales</b>	<b>11,830</b>	<b>61.4</b>	<b>10,258</b>	<b>65.5</b>
<b>Export Sales</b>				
1. PVC Resins	4,440	23.0	3,484	22.2
2. Caustic Soda	65	0.3	-	-
3. VCM	-	-	-	-
4. ECH	2,947	15.3	1,917	12.2
<b>Total Export Sales</b>	<b>7,451</b>	<b>38.6</b>	<b>5,401</b>	<b>34.5</b>
<b>Domestic and Export Sales</b>				
1. PVC Resins	9,857	51.1	9,369	59.8
2. Caustic Soda	4,082	21.2	2,225	14.2
3. VCM	1,667	8.6	1,516	9.7
4. ECH	3,596	18.6	2,488	15.9
5. Others	79	0.4	61	0.4
<b>Total Domestic and Export Sales</b>	<b>19,282</b>	<b>100.0</b>	<b>15,659</b>	<b>100.0</b>

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

### Analysis of Costs and Expenses

1. In 2017, Cost of sales was 15,317 MTHB, increased by 1,778 MTHB comparing to 2016 or 13% as a result of higher sales volume and Ethylene and Glycerin price increase. The rise of Ethylene price was influenced by both tight Ethylene supply from crackers maintenances and low Methanol-to-Olefins operating rate. Strong Ethylene demand derived from greater China's consumption and higher Ethylene derivatives' margin. Meanwhile, the hike in Glycerin price was driven mostly from its limited supply led by the impact of USA's Anti-Dumping Duty to biodiesel imported from Argentina and Indonesia plus low Oleochemicals and Biodiesel industries' operating rates in respond to high vegetable oil price.

Despite the increase of main raw material costs, the products' spread margin was improved together with the reliability of production unit throughout the year 2017. The Company and its subsidiaries have been able to increase the Gross Profit margin by 7% compared to the year 2016.

2. In 2017, distribution costs, administrative expenses, and doubtful debt expenses was 1,719 MTHB, increased by 546 MTHB or 47% from 2016. This increment was mainly from the loss on written-off and disposal of plant and equipments and intangible assets of Solvay Biochemicals (Taixing) Limited ("SBT"). Moreover, it was also caused by the transitional service expense plus the additional transportation and commission costs.

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

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

### Analysis of Assets

As at 31 December 2017, the Company and its subsidiaries had 19,879 MTHB of the total assets, which was increased 1,300 MTHB or 7% from previous year.

Details of the major changes were following:

1. As at 31 December 2017, the Company and its subsidiaries had net cash and cash equivalents amounting to 5,213 MTHB, increasing 2,005 MTHB or 63% comparing to 3,207 MTHB at the end of 2016. (see further information in analysis of cash flow)
2. The balance of trade receivables at the end of 2017 was 2,605 MTHB, increasing by 633 MTHB comparing to 1,972 MTHB at the end of 2016. Most of the receivables were not yet due. For the corresponding bad debt, the Company had already set sufficient provision.
3. The balance of other receivables at the end of 2017 was 12 MTHB, decreasing by 119 MTHB comparing to 131 MTHB at the end of 2016. The decrement mostly came from the receipt of 111 MTHB insurance claims receivable from electricity blackout incidence in July 2016.
4. The Company and its subsidiaries had net inventories at the end of 2017 amounting to 1,113 MTHB, increasing from 962 MTHB of the year 2016.
5. At the end of 2017, the Company and its subsidiaries had net property, plant and equipment, intangible assets, and assets not used in operation amounting to 9,962 MTHB or decreasing by 1,279 MTHB comparing to 11,241 MTHB at the end of 2016, mainly from normal depreciation and the disposal and written-off of SBT's assets not used in operation.

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

6. The balance of deferred tax assets at the end of 2017 was 306 MTHB, decreasing by 94 MTHB comparing to 400 MTHB at the end of 2016 due to the reverse of deferred tax assets from loss carried forward in 2017 amounting to 101 MTHB.

#### Analysis of Liabilities

The Company and its subsidiaries had total liabilities at the end of 2017 amounting to 2,011 MTHB which decreased by 404 MTHB or 17% comparing to 2016. The major change of the liabilities was the repayment of long-term loan amounting to 618 MTHB. As at 31 December 2017, the Company and its subsidiaries had no loan outstanding compared to 2016.

#### Analysis of Shareholders' Equity

As at 31 December 2017, the shareholders' equity was 17,868 MTHB which increased by 1,704 MTHB or 11% comparing to 16,164 MTHB at the end of 2016. The increment was mainly from the net profit of 2016 offset with dividend paid to its shareholders.

#### Analysis of Cash Flow

As of 31 December 2017 the Company and its subsidiaries' Cash Flow Statement presented 5,213 MTHB of cash and cash equivalents. The sources and uses of funds were following:

1. In 2017, the net cash flow from operating activities was 3,409 MTHB which increased by 864 MTHB or 34% comparing to 2016 from Company's better operating results.
2. In 2017, the net cash flow used in investing activities was 221 MTHB, increased by 15 MTHB comparing to its amount of 206 MTHB in 2016. The reason was more purchase of machinery and equipment by the Company and its subsidiaries in 2017 comparing to last year.

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

3. In 2016, the net cash flow used in financing activities totaling of 1,181 MTHB mainly from the repayment of long term loan 618 MTHB and dividends paid to shareholders 533 MTHB.

Net cash flow from operating activities	3,409	MTHB
Net cash flow used in investing activities	(221)	MTHB
Net cash flows used in financing activities	(1,181)	MTHB
Increase in translation adjustments of its subsidiary (SBT)	<u>(2)</u>	MTHB
Net increase in cash and cash equivalents	<u>2,005</u>	MTHB

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

## Financial Ratios

	<u>2017</u>	<u>2016</u>
Gross profit margin	20.6%	13.5%
Net profit margin	11.6%	7.1%
Debt to Equity ratio	0.11	0.15
Earnings per share	1.90	0.95
ROA	12.3%	6.2%
ROE	13.2%	7.1%

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

Net Profit margin = Net Profit to Total Revenues

Debt to Equity = Total Liabilities to Total Equity

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

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

Yours faithfully,

(Mr. Hiroaki Sano)  
Managing Director

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