



Date: 8 August 2018

Subject: Management Discussion and Analysis of the Financial Statements for 3-month and 6-month period ended 30 June 2018

Attention: Managing Director, The Stock Exchange of Thailand

Thai Nippon Rubber Industry Public Company Limited (“TNR”) reported performance of 3-month and 6-month period ended 30 June 2018, details are as follows.

Management Discussion and Analysis

Explanation and analysis of financial position and operating performance

Statements of Comprehensive Income

Statements of Comprehensive Income	For 3-month period ended 30 June		Comparison		For 6-month period ended 30 June		Comparison	
	2018	2017	2018 & 2017		2018	2017	2018 & 2017	
	Million Baht	Million Baht	Million Baht	Percent	Million Baht	Million Baht	Million Baht	Percent
<u>Revenue from sales of products</u>								
- Condoms	323.8	322.9	0.9	0.3	661.7	557.4	104.3	18.7
- Lubricants	10.1	11.8	(1.7)	(14.4)	36.6	19.6	17.0	86.7
- Others	0.2	0.1	0.1	100.0	0.2	0.2	0.0	0.0
Total Revenue from sales of products	334.1	334.8	(0.7)	(0.2)	698.5	577.2	121.3	21.0
Cost of goods sold	(266.5)	(240.5)	(26.0)	10.8	(544.6)	(437.4)	(107.2)	24.5
Gross Profit	67.6	94.3	(26.7)	(28.3)	153.9	139.9	14.0	10.0
	20%	28%			22%	24%		
Other Income	9.3	2.7	6.6	244.4	10.5	3.6	6.9	191.7
Profit before expenses	76.9	97.0	(20.1)	(20.7)	164.4	143.5	20.9	14.6
Selling expense	(30.0)	(28.6)	(1.4)	4.9	(59.1)	(47.2)	(11.9)	25.2
Administrative expense	(23.2)	(19.8)	(3.4)	17.2	(49.7)	(39.6)	(10.1)	25.5
Other gains (losses)	13.7	18.6	(4.9)	(26.3)	(2.3)	10.3	(12.6)	(122.3)
Finance costs	(1.9)	0.2	(2.1)	(1,050.0)	(2.2)	3.8	(6.0)	(157.9)
Total Expenses	(41.4)	(29.6)	(11.8)	39.9	(113.3)	(72.6)	(40.7)	56.1
Profit before income tax	35.5	67.4	(31.9)	(47.3)	51.1	70.8	(19.7)	(27.8)
Income tax	(1.3)	(0.8)	(0.5)	62.5	(1.5)	(0.8)	(0.7)	87.5
Net profit for the period	34.2	66.7	(32.5)	(48.7)	49.6	70.0	(20.4)	(29.1)
	10%	20%			7%	12%		



Revenue from Sales of Products

Total revenue	For 3-month period ended 30 June				Comparison		For 6-month period ended 30 June				Comparison	
	2018		2017		2018 & 2017		2018		2017		2018 & 2017	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Revenue from sales of condoms	323.8	96.9	322.9	96.4	0.9	0.3	661.7	94.7	557.4	96.6	104.3	18.7
Revenue from sales of lubricants	10.1	3.0	11.8	3.5	(1.7)	(14.4)	36.6	5.2	19.6	3.4	17.0	86.7
Other revenue	0.2	0.1	0.1	0.0	0.1	100.0	0.2	0.0	0.2	0.0	0.0	0.0
Total revenue	334.1	100.0	334.8	100.0	(0.7)	(0.2)	698.5	100.0	577.2	100.0	121.3	21.0

For 3-month period ended 30 June 2018 and 2017, TNR recorded the total revenue of 334.1 Million Baht and 334.8 Million Baht, respectively and decreased by 0.7 Million Baht or 0.2%. The main source of revenue for TNR is from sales of condoms which is accounted for 96.9% and 96.4%, respectively.

For 6-month period ended 30 June 2018 and 2017, TNR recorded the total revenue of 698.5 Million Baht and 577.2 Million Baht, respectively and increased by 121.3 Million Baht or 21.0%. Sales of condoms is accounted for 94.7% and 96.6% respectively.

Revenue from Sales of Condoms and Lubricants by Business

Revenue by business segment	For 3-month period ended 30 June				Comparison		For 6-month period ended 30 June				Comparison	
	2018		2017		2018 & 2017		2018		2017		2018 & 2017	
	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 brand ONETOUCH™	25.6	7.7	29.6	8.8	(4.0)	(13.5)	47.8	6.8	47.6	8.2	0.2	0.4
Revenue from OEM business for production and distribution of condoms and lubricants	247.8	74.2	259.1	77.4	(11.3)	(4.4)	525.8	75.3	449.4	77.9	76.4	17.0
Revenue from Tender business	60.5	18.1	46.0	13.7	14.5	31.5	124.7	17.9	80.0	13.9	44.7	55.9
Total revenue from sales of condoms and lubricants	333.9	100.0	334.7	100.0	(0.8)	(0.2)	698.3	100.0	577.0	100.0	121.3	21.0

□ Revenue from manufacture and distribution of condoms and lubricants under company's trademark, ONETOUCH™

Revenue from the production and distribution of condoms and lubricants under the company's trademark	For 3-month period ended 30 June				Comparison		For 6-month period ended 30 June				Comparison	
	2018		2017		2018 & 2017		2018		2017		2018 & 2017	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Domestic sales	20.1	78.5	22.6	76.4	(2.5)	(11.1)	40.9	85.6	38.1	80.1	2.8	7.3
Overseas sales	5.5	21.5	7.0	23.6	(1.5)	(21.4)	6.9	14.4	9.5	19.9	(2.6)	(27.4)
Total revenue from the production and distribution of condoms and lubricants under the company's trademark	25.6	100.0	29.6	100.0	(4.0)	(13.5)	47.8	100.0	47.6	100.0	0.2	0.4



For 3-month period ended 30 June 2018, the revenue has declined by 4.0 Million Baht or 13.5% due to a slowdown in market growth compared to 30 June 2017.

For 6-month period ended 30 June 2018, the total revenue has increased by 0.2 Million Baht or 0.4% compared to 30 June 2017 as a result of a higher proportion of condom ordered in the 1st quarter 2018 particularly ONETOUCH™ 003.

□ Revenue from Original Equipment Manufacturer (OEM)

OEM business for condoms and lubricants by market	For 3-month period ended 30 June				Comparison		For 6-month period ended 30 June				Comparison	
	2018		2017		2018 & 2017		2018		2017		2018 & 2017	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Asian market group	127.5	51.5	103.7	40.0	23.8	23.0	286.2	54.4	209.2	46.6	77.0	36.8
African market group	66.4	26.8	6.8	2.6	59.6	876.5	87.8	16.7	43.8	9.7	44.0	100.5
American market group	31.1	12.6	136.5	52.7	(105.4)	(77.2)	101.5	19.3	167.6	37.3	(66.1)	(39.4)
European and Oceania market group	22.8	9.2	12.1	4.7	10.7	88.4	50.3	9.6	28.8	6.4	21.5	74.7
Total revenue from OEM business for condoms and lubricants	247.8	100.0	259.1	100.0	(11.3)	(4.4)	525.8	100.0	449.4	100.0	76.4	17.0

For 3-month period ended 30 June 2018, the revenue has declined under OEM business in the amount of 11.3 Million Baht or 4.4% compared to 30 June 2017 as a result of a decline in revenue from American Market Group.

For 6-month period, the company has revenue growth of 76.4 Million Baht or 17% which it is from an increase in sales from Asian Market Group, African Market Group, European and Oceania Market Group while sales from American Market Group declined.

An overview of revenue of OEM business by market:

1. For 3-month period ended 30 June 2018, revenue from Asian Market Group increased 23.8 Million Baht or 23.8% year on year and for 6-month period ended 30 June 2018, revenue increased 77 Million Baht or 36.8%. The main reason for higher sales contribution in this market was due to major customer in Pakistan increased the number of order for condom by adding new SKUs as part of its plan to expand the market. The main customer in China is also expanding its customer base which resulted in higher orders compared to the same prior period.

2. For 3-month period ended 30 June 2018, revenue from African Market Group increased 59.6 Million Baht or 876.5% and for 6-month period ended 30 June 2018, revenue increased 44.0 Million Baht or 100.5%. Main customer in Nigeria placed higher orders to support its market growth. In addition, customers in Ethiopia were granted government supports to promote condom usage and prevent the spread of STDs, which contributes to higher sales in this market compared to the same prior period.



3. For 3-month period ended 30 June 2018, revenue from American Market Group declined 105.4 Million Baht or 77.2% and for 6-month period ended 30 June 2018, revenue also declined 66.1 Million Baht or 39.4%. The major customers in this market still have available stocks since last time order at the end of 2017. It led to less sale volume compared to 1st half of 2017.

4. For 3-month period ended 30 June 2018, revenue from European and Oceania Market Group increased 10.7 Million Baht or 88.4% and for 6-month period ended 30 June 2018, revenue increased 21.5 Million Baht or 74.7% as a result of higher orders from Australia and England.

Revenue from Tender business segment

For 3-month period ended 30 June 2018, revenue increased 14.5 Million Baht or 31.5% and for 6-month period ended 30 June 2018, revenue increased 44.7 Million Baht or 55.9% as a result of TNR won more tender orders compared to the same prior period particularly from American Market Group.

Cost of Goods Sold

For 3-month period ended 30 June 2018 and 2017, TNR recorded cost of goods sold of 266.5 Million Baht and 240.5 Million Baht or 79.8% and 71.8% respectively. For 6-month period ended 30 June 2018 and 2017, the cost of goods sold was 544.6 Million Baht and 437.4 Million Baht or 78.0% and 75.8% respectively.

Gross Profit and Gross Profit Margin

For 3-month period ended 30 June 2018 and 2017, TNR recorded gross profit of 67.6 Million Baht and 94.3 million Baht or 20.2% and 28.2% respectively. For 6-month period ended 30 June 2018, gross profit is recorded at 153.9 Million Baht and 139.9 Million Baht or 22.0% and 24.2%, respectively. Main factor affecting gross profit is the appreciation of THB against USD compared to the same prior period. In contrast, TNR has lower manufacturing cost and overhead cost as a result of more efficient cost management.

Other income

For 3-month period ended 30 June 2018, other income increased 6.6 Million Baht and for 6-month period ended 30 June 2018 increased 6.9 Million Baht. TNR has started recognizing the income from royalty fee of PLAYBOY since the 2nd quarter 2018.



Selling Expenses

For 3-month period ended 30 June 2018, TNR recorded the increase in selling expenses of 1.4 Million Baht or 4.9% and for 6-month period ended 30 June 2018, selling expenses increased 11.9 Million Baht or 25.2% due to higher advertising, marketing, and promotional expenses for ONETOUCH™.

Administrative Expenses

For 3-month period ended 30 June 2018, TNR recorded an increase in administrative expenses of 3.4 Million Baht or 17.2% and for 6-month period ended 30 June 2018, the administrative expenses increased 2.8* Million Baht or 5.9% from consulting fees and other administrative expenses.

*For 6-month period ended 30 June 2017, TNR reversed an allowance for doubtful account at 7.3 Million Baht resulted in a decline in the administrative expenses for the 6-month period from 46.9 Million Baht to 39.6 Million Baht.

Other gains (losses)

For 3-month period ended 30 June 2018, TNR recorded a decrease in gains (loss) at 4.9 Million Baht or 26.3% and for 6-month period ended 30 June 2018, gain (loss) decreased at 12.6 Million Baht or 122.3%. It was mainly from lower net gain from exchange rate resulted from the appreciation of THB against USD in the 1st quarter 2018.

Finance Costs (net)

For 3-month period ended 30 June 2018, TNR recorded higher finance costs expense at 2.1 Million Baht or 1,050.0%. For 6-month period ended 30 June 2018, finance costs were recorded higher at 6.0 Million Baht or 157.9%. The main reason is from the higher interest expenses from loans from financial institutions.

Net Profit and Net Profit Margin

For 3-month period ended 30 June 2018, TNR recorded lower net profit at 32.5 Million Baht and for 6-month period ended 30 June 2018, TNR recorded lower net profit at 20.4 Million Baht. The lower in net profit compared to 2017 was due to lower gross profit and a slight increase in selling and administrative expenses.



Financial Position

The following table shows TNR's financial position as at 30 June 2018 and 31 December 2017

Statement of Financial Position	As at 30 June		As at 31 December		Comparison	
	2018		2017		2018 & 2017	
	Amount Million Baht	Percent	Amount Million Baht	Percent	Amount Million Baht	Percent
Asset						
Current Assets						
Cash and cash equivalents	95.4	5.3	221.9	17.6	(126.5)	(57.0)
Short term loans and Interest receivable - related parties	-	-	-	-	-	-
Trade and other accounts receivable (net)	519.0	28.8	392.5	31.1	126.5	32.2
Inventory (net)	167.5	9.3	113.4	9.0	54.1	47.7
Value added tax	31.3	1.7	10.3	0.8	21.0	203.9
Loans to employee	0.8	0.0	0.6	0.1	0.2	33.3
Total current assets	814.0	45.1	738.7	58.6	75.3	10.2
Non-current assets						
Property, plant and equipment (net)	494.5	27.4	497.0	39.4	(2.5)	(0.5)
Intangible assets (net)	488.3	27.1	17.9	1.4	470.4	2,627.9
Deferred tax assets	4.9	0.3	6.0	0.5	(1.1)	(18.3)
Other non-current assets	2.0	0.1	2.0	0.2	0.0	-
Total non-current assets	989.7	54.9	522.9	41.4	466.8	89.3
Total assets	1,803.7	100.0	1,261.6	100.0	542.1	43.0
Liabilities						
Current liabilities						
Short-term loans from financial institutions	192.4	10.7	0.0	-	192.4	-
Trade and other accounts payable	398.9	22.1	183.8	14.6	215.1	117.0
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	38.0	2.1	13.5	1.1	24.5	181.5
Accrued income tax	2.2	0.1	3.6	0.3	(1.4)	(38.9)
Other current liabilities	2.4	0.1	3.2	0.3	(0.8)	(25.0)
Total Current Liabilities	634.0	35.1	204.2	16.2	429.8	210.5
Non-current liabilities						
Liability under hire purchase contract	0.1	0.0	0.1	0.0	0.0	-
Long-term loans from a financial institution	175.2	9.7	10.5	0.8	164.7	1,568.6
Employee benefit obligations	30.5	1.7	36.5	2.9	(6.0)	(16.4)
Total non-current liabilities	205.8	11.4	47.1	3.7	158.7	336.9
Total liabilities	839.8	46.6	251.3	19.9	588.5	234.2
Equity						
Share capital						
Authorised share capital						
300,000,000 ordinary shares of par Baht 1 each	300.0	16.6	300.0	23.8	-	-
Issued and fully paid-up share capital						
300,000,000 ordinary shares of par Baht 1 each	300.0	16.6	300.0	23.8	-	-
Share premium (net)	549.1	30.4	549.1	43.5	0.0	0.0
Retained earnings						
Appropriated - legal reserve	30.0	1.7	30.0	2.4	-	-
Unappropriated	85.1	4.7	131.5	10.4	(46.4)	(35.3)
Other components of equity (net)	(0.3)	(0.0)	(0.3)	(0.0)	0.0	0.0
Total equity	963.9	53.4	1,010.3	80.1	(46.4)	(4.6)
Total liabilities and equity	1,803.7	100.0	1,261.6	100.0	542.1	43.0



Assets

As at 30 June 2018 and 31 December 2017, TNR recorded the total asset of 1,803.7 Million Baht and 1,261.6 Million Baht respectively which increased 542.1 Million Baht or 43%. The increase was mainly from an increase in intangible asset (net) from acquiring PLAYBOY license as well as higher trade and other accounts receivable (net). TNR also recorded a decrease in cash and cash equivalents.

Liabilities

As at 30 June 2018 and 31 December 2017, TNR recorded total liabilities of 839.8 Million Baht and 251.3 million Baht respectively, which increased 588.5 Million Baht or 234.2%. It was from an increase in trade and other accounts/ payable, long term loans from financial institutions for acquiring PLAYBOY license as well as for TNR's working capital.

Equity

As at 30 June 2018 and 31 December 2017, TNR has balance of equity of 963.9 Million Baht and 1,010.3 Million Baht respectively which decreased 46.4 Million Baht or 4.6%. The main reason was from dividend payment of 96 Million Baht in the 2nd quarter 2018 and a net profit of 49.6 Million Baht.

Summary of TNR Financial Position

The computation on financial statements for the 6-month period ended 30 June 2018 and the fiscal year-end ended 31 December 2017 has impacted on the financial ratio as follows.

- The debt-to-equity ratio (D/E) is increased from 0.25 time to 0.87 time, a result from an increase in total liabilities.

- Basic earnings per share as of 30 June 2018 was 0.17 Baht per share and as of 30 June 2017 was 0.23 Baht per share (computing from weighted common shares of 300,000,000 shares) which declined from the growth in net profit.

Sincerely Yours,

.....
Sumate Masileerungsri
Chief Financial Officer
Authorized to Disclose Information
Thai Nippon Rubber Industry Public Company Limited