



บริษัท ไทยเซ็นทรัลเคมี จำกัด (มหาชน)

THAI CENTRAL CHEMICAL PUBLIC COMPANY LIMITED

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(Translation)

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Subject Clarification of the year 2017 performance

To President
The Stock Exchange of Thailand

Enclosure Management Analysis and Discussion (MD&A)

Thai Central Chemical Public Company Limited would like to submit Management Analysis and Discussion (MD&A) of the year-end performance of the year 2017 as in the attachment.

Please be informed accordingly.

Sincerely yours,

Mr. Kyosuke Sasaki

President & CEO

Management Discussion and Analysis (MD&A)

Business Overview

The Company reported in the Consolidated Financial Statement of 2017 from January 1 to December 31, 2017 that the Company achieved Profit Attributable to Owners of the parent of Baht 1,932 million, a decrease of 16% or Baht 374 million from the previous year of Baht 2,306 million. It was attributed to receding demand for chemical fertilizer in 2017 resulting from low purchasing power of farmers. The reduction in other income, due to lower earnings from sales of investment properties compared to 2016, also caused the decline in this year's profit.

To pursue a growth strategy, the Company invested in a packing and warehousing facility in Myanmar under its foreign subsidiary "TCCC Myanmar Limited". This new facility will be the Company's main driver to develop fertilizer business and strengthen market presence in Myanmar. TCCC Myanmar Limited is due to start the commercial operation in the first quarter of 2018.

As a result, Earnings per Share for the year 2017 was 3.30 Baht, decreased from 3.94 Baht in 2016.

Business Segment Information

The Company's main business is to import, manufacture and distribute variety formulas of chemical fertilizer. The Company has 3 subsidiaries, 1) TCCC Myanmar Ltd., an importer and distributor of chemical fertilizer in Myanmar, 2) MC Agro-Chemicals Co., Ltd., an importer and distributor of herbicide, fungicide, and insecticide for agriculture, and 3) N.I.M. Co., Ltd., an owner and operator of the tank terminal for storage of liquid chemicals for industrial uses. The Company performance is analyzed in segment of Core Business and Subsidiaries Business.

- **Core Business (Chemical Fertilizers)**

Lower agricultural prices and floods in some areas were the two factors that significantly hampered farmers' purchasing power and hindered their willingness to start cultivation. Despite having some supporting schemes from the government, those subsidies were primarily focused on the low income people rather than directly on the farmers. As a result, demand for chemical fertilizer in 2017 decreased compared to the previous year.

In order to make up the unfavorable domestic demand, the Company exports products to neighboring countries, Cambodia, Laos, and Myanmar. The Company also

established TCCC Myanmar to accommodate the high potential for expansion of chemical fertilizer market.

The global fertilizer raw material market saw the stronger price uptrend in the last quarter of 2017 as a result of picking up demands from big economies. Despite the higher raw material prices, the appreciation of Baht values, in some extent, helped neutralizing the raw material cost. Under this circumstance, the Company strictly adhered to the management policy to have inventories maintained at its optimality. In line with the reduction in Sales, the Cost of Goods Sold decreased by 6% in 2017.

- **Subsidiaries Business**

Sales Revenue and Service Income of the two subsidiaries was insignificant at 4.5% of the total (Sales Revenue of chemical fertilizer was 95.5%) in 2017.

Sales Revenue and Service Income of MC Agro-Chemicals increased 23% in 2017 from the previous year, resulted from stronger sales of herbicide.

Service Income of N.I.M. increased by 2% from the previous year, resulted from slightly higher volume of chemicals stored in the tanks.

The Company established the third subsidiary, TCCC Myanmar Limited in October, 2016. TCCC Myanmar will start operation from the first quarter of 2018, thereafter the Company will report of its business in Core Business segment.

Policy and Strategy

The Company adheres to the main strategies of; 1) stably supplying high quality products for farmers to achieve high yield and good quality in farming, 2) providing best services to the customers to meet their requirements, and 3) controlling production and procurement to maintain optimal inventory, so as to generate highest income from the operation. The Company also prioritizes the importance of safety and environment protection in manufacturing. As a part of the Company's CSR policy, the Company aims at being a good corporate citizen in the local communities.

In order to achieve the sustainable growth, the Company determines to utilize its technology and manufacturing facilities to create distinctive values on the products, and to develop fertilizer market in the neighboring countries to further expand the export business.

Accounting Policies

The Company's financial year is of the period from January 1 until December 31 of every year. The financial statements have been prepared in accordance with Thai Accounting Standard No.1 (Revised 2016) and the Regulation of the Stock Exchange of Thailand. The financial statements have been prepared under the measurement basis of historical cost.

The significant accounting policies is to recognize revenue from sales when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. For inventories, it is stated at the lower of cost or net realizable value. Cost is determined on a weighted average method except for a subsidiary, MC Agro-Chemicals Company Limited, which cost is determined on a first-in, first-out method.

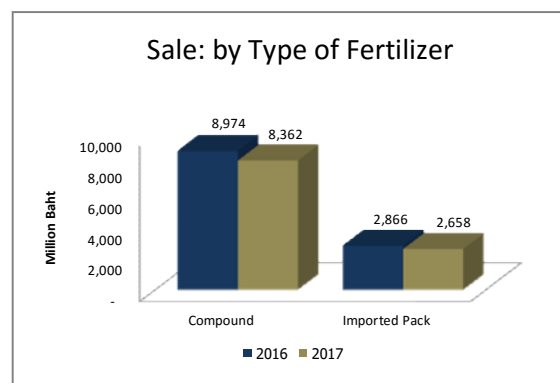
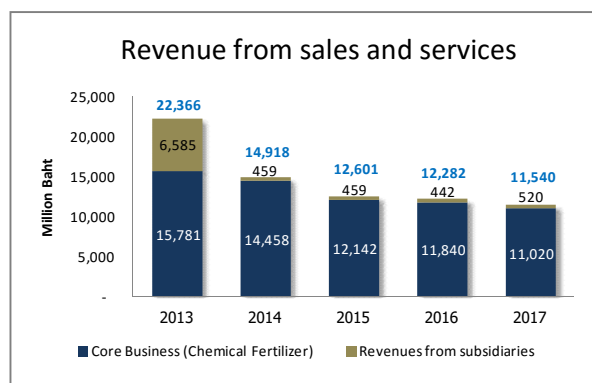
Results of Operations

1. Overview of the Operation

Statement of Profit or Loss and Other Comprehensive Income as of December 31, 2017 compares with the Statement of Profit or Loss and Other Comprehensive Income as of December 31, 2016.

Unit : Million Baht	Year		Change
	2016	2017	%
Revenues from Sales and Services	12,282	11,540	(6)
Cost of Goods Sold and Services	(9,085)	(8,540)	(6)
Gross Profit	3,197	3,000	(6)
Other Income	398	113	(72)
Profit Before Expenses	3,595	3,113	(13)
Selling and Administration Expenses	(699)	(679)	(3)
Profit Before Finance Costs and Income Tax Expense	2,896	2,434	(16)
Finance Costs	(6)	(3)	(51)
Profit Before Income Tax Expense	2,890	2,431	(16)
Income Tax Expense	(574)	(484)	(16)
Profit for the Year	2,316	1,947	(16)
Profit Attributable to Owners of parent	2,306	1,932	(16)
Total Comprehensive Income Attributable to Owners of parent	2,307	1,892	(18)

2. Revenues from Sales and Services



Remark: Income from Net Sales of 2014 was adjusted by excluding the income from MC Industrial Chemical Co., Ltd., MC Plastic Co., Ltd., and MC Solvents Co., Ltd., which the Company sold its shares in those companies out in 2015.

- **Core Business (Chemical Fertilizers)**

In 2017, the Company generated income from sales of chemical fertilizers in total of Baht 11,020 million, decreased by Baht 820 million or 7% from 2016 (Baht 11,840 million). The decrease in sales was due to the lower demand of chemical fertilizer and farmers' switching preferences to the lower price formulas. Under this volatile market condition in 2017, the Company strived to maintain the competitiveness in the market in order to achieve the highest return for shareholders.

The Company's chemical fertilizers can be categorized into 2 types: Compound fertilizers manufactured by the Company and Imported-Pack fertilizers. The income from selling Compound fertilizers was in the amount of Baht 8,362 million, decreased by Baht 612 million or 7% from 2016. Meanwhile, the income from selling Imported-Pack fertilizers was in the amount of Baht 2,658 million, decreased by Baht 208 million or 7% from 2016.

- **Income from the Subsidiaries' Business**

In 2017, income from the Subsidiaries' business was from selling herbicides used in agriculture, and servicing tank rental and terminal operation for the storage of liquid chemicals used in various industries, which was in the amount of Baht 520 million, increased by Baht 78 million or 18% compared to Baht 442 million in 2016.

3. Cost of Goods Sold and Services

Cost of Goods Sold in 2017 showed at Baht 8,540 million, decreased by Baht 545 million Baht or 6% from 2016 (Baht 9,085 million). The higher raw material prices in the last quarter had pushed upward pressure to the Cost of Goods Sold in 2017. Meanwhile, the Baht appreciation compared to the US dollars during the same period held back the rising cost of imported raw materials. As the other costs such as energy and transportation remained relatively unchanged, the overall Cost of Goods Sold decreased comparably with the Sales Revenue in 2017.

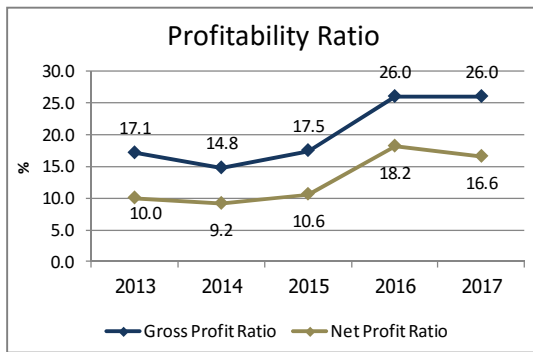
4. Selling and Administration Expenses

The Company bore the Selling and Administration Expenses at Baht 679 million, decreased by Baht 20 million or 3% from 2016 (Baht 699 million). The decrease was due to better management during the low chemical fertilizer demand affected from lower farmers' purchasing power. Under this adverse condition, The Company had tried best to spend on more selective and effective advertising campaigns to expand the sale volume.

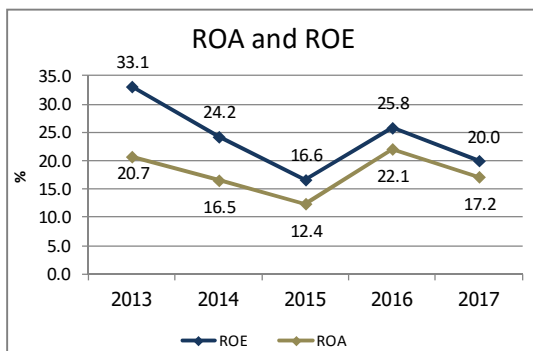
5. Profitability Analysis

Unit	Year		Change
	2016	2017	%
Gross Profit (Million Baht)	3,197	3,000	(6)
Profit Attributable to Owners of Parent	2,306	1,932	(16)
Earnings Per Share (Baht)	3.94	3.30	(16)

In 2017, The Company's Gross Profit showed at Baht 3,000 million, decreased by Baht 197 million or 6% from 2016 (Baht 3,197 million). The decrease of Gross Profit amount was due to the lower demand for chemical fertilizer as well as higher raw material prices. Meanwhile, the Gross Profit Ratio in 2017 was 26.0%, remained unchanged from 2016.



For Profit Attributable to Owners of parent of 2017, the Company earned Baht 1,932 million, decreased by Baht 374 million or 16% from 2016 (Baht 2,306 million). As a result, Earnings per share decreased 0.64 Baht per share or 16%, from 3.94 Baht in 2016 to 3.30 Baht in 2017.



The Return on Equity (ROE) in 2017 was 20.0%, lower than 25.8% in 2016. The Return on Asset (ROA) in 2017 was 17.2%, lower than 22.1% in 2016. The Company endeavored to maintain the capability to make profit for shareholders and tried to utilize all of the existing assets to achieve the best performance.

(Remark: the financial ratio of 2013 – 2014 included MC Industrial Chemical Co., Ltd., MC Plastic Co., Ltd. and MC Solvents Co., Ltd., which the Company sold its shares out in 2015)

Analysis of Liquidity and Capital Resources

1. Overview of Financial Statement

Note to Statement of Financial Position

Description	December 31, 2016		December 31, 2017	
	Million Baht	Percentage to Total Assets	Million Baht	Percentage to Total Assets
Current Assets	8,843	78	8,491	76
Non-current Assets	2,465	22	2,707	24
Total Assets	11,308	100	11,198	100
Current Liabilities	1,315	12	1,184	11
Non-current Liabilities	257	2	253	2
Shareholders' Equity	9,736	86	9,761	87
Total Liabilities and Shareholders' Equity	11,308	100	11,198	100

2. Assets

As of December 31, 2017, the Company's Total Assets showed at Baht 11,198 million decreased by Baht 110 million or 1% from the end of 2016. Details are shown in the table below:

Description	December 31, 2016	December 31, 2017	Change %
	Million Baht	Million Baht	
Cash and Cash Equivalents	6,092	4,680	(23)
Current Investment	252	973	286
Accounts Receivable - Trade	737	714	(3)
Inventories	1,678	2,042	22
Total Assets	11,308	11,198	(1)

Cash and Cash Equivalents decreased by 23% compared to the previous year. The significant drop in cash was mainly due to the increase in deposits with a set period of more than three months, which was classified into Current Investment. Thus, the Current Investment in 2017 increased by 286%. Accounts Receivable – Trade slightly decreased by 3%. Meanwhile, Inventories increased by Baht 364 million or 22% partly as a result of the increase of raw material prices in the 4th quarter. The Company also expects for higher sales after the purchasing power recovery in 2018 so the inventories of some formulas are prepared to fulfill the upcoming market demand.

- **Investments Goodwill and Amortization.**

The main intangible asset is Right for use of trademarks .The Company engaged an independent appraiser to determine the fair value of the right to use the trademarks referred to above in accordance with the Notification of the Stock Exchange Commission dated April 30, 2004 regarding the opinion for accounting treatment for intangible assets. According to the reports of the independent appraiser dated January 8, 2018 and January 5, 2017, the appraisal values of the fair value of such right as at December 26, 2017 and December 30, 2016, respectively, by using the Discounted Cash Flow Approach are higher than the carrying values.

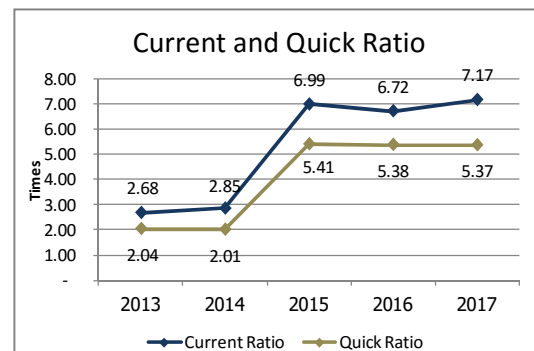
For the year ended December 31, 2017 and 2016, sale under these trademarks were approximately 98% of the Company’s total revenue from sales.

3. Liabilities and Equity

- On December 31, 2017, the Company had Total Liabilities at Baht 1,437 million, decreased by Baht 135 million or 9% from the end of 2016.
- On December 31, 2017, the Company had Total Equity at Baht 9,761 million, increased by Baht 25 million or 0.3% from the end of 2016.

4. Liquidity and Cash Flows

The Current Ratio was slightly improved from 6.72 times at the end of 2016 to 7.17 times at the end of 2017. Meanwhile, the Quick Ratio changed relatively little to 5.37 at the end of 2017 from 5.38 at the end of 2016. Despite under this unusual business environment, these ratios were not significantly changed as the Company tried to maintain the Current Assets and liquidity to be at the optimal level.



The Net Cash Flow provided by operating activities of 2017 was Baht 1,536 million, decreased by Baht 698 million or 31.2% from 2016 (Baht 2,234 million). Meanwhile, the Net Cash Flow used in financing activities in 2017 was Baht 1,891 million, increased by Baht 984 million or 108.5 % from 2016 (Baht 907 million).

At the end of 2017, the Company had cash flow of bank overdrafts and short-term borrowings from financial institutions at the amounts of Baht 1.3 million. It decreased by Baht 10.3 million or 88.8% from the end of 2016 (Baht 11.6 million).

In 2017, Net Cash Flow used in investing activities was Baht 1,038 million, while in 2016 the Company received Cash Flow provided by investing activities for the total of Baht 102 million. The change of Baht 1,140 million was mainly due to the reclassification of cash

equivalents regarding the current investment on fixed deposit and the decrease in cash inflow from selling investment properties.

5. Commitment and Contingent Liabilities and Out Balance Sheet

- 5.1 The Company has capital commitments for capital expenditure as at December 31, 2017 and 2016 of Baht 63.63 million and Baht 97.31 million, respectively.

A foreign subsidiary has capital commitment for capital expenditure as at December 31, 2017 of USD 0.31 million (or equivalent Baht 10.21 million) (as at December 31, 2016: nil).

- 5.2 As at December 31, the Company and its subsidiaries have leased office buildings, warehouse, vehicles and office equipment under operating lease agreements. The future lease payments are summarized as follows:

	Consolidated		Separate	
	Financial Statements 2017	2016	Financial Statements 2017	2016
Within 1 year	39,808,755	24,133,281	33,534,420	21,659,385
1 - 5 years	26,706,206	20,887,945	23,712,458	15,462,149
	<u>66,514,961</u>	<u>45,021,226</u>	<u>57,246,878</u>	<u>37,121,534</u>

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries recognized rental fees from operating lease agreements of Baht 46.56 million and Baht 36.23 million in the consolidated financial statements, respectively, and for the separate financial statements of Baht 42.33 million and Baht 34.88 million, respectively.

- 5.3 The Company has commitments with banks for letters of guarantee of issued as at December 31, 2017 and 2016 of Baht 8.83 million and 8.83 million, respectively. Certain subsidiaries has commitment with banks for letters of guarantee issued in the amount of Baht 0.18 million and Baht 0.18 million as at December 31, 2017 and 2016, respectively.
- 5.4 As at December 31, 2017 and 2016, the Company has commitment with a bank regarding the outstanding letters of credit amounting to USD 10.30 million and EUR 0.05 million (or equivalent to Baht 340.42 million) and USD 7.98 million and EUR 0.06 million (or equivalent to Baht 289.46 million), respectively.

5.5 Significant Agreements

5.5.1 Technical assistance agreement

The Company has a technical assistance agreement with a company in Japan. The Company is obligated to pay a basic retaining fee of USD 50,000 per annum. The agreement is in effect for a period of one year and shall be automatically renewed on a yearly basis unless either party expresses its

intention not to renew the agreement by written notice to other party at least three months before the expiring date.

5.5.2 Energy performance agreement

The Company entered into Energy Performance Contract (EPC) with a company. The Company would be advised to improve the efficiency of energy saving and had to pay monthly advisory fees based on percentage of the electricity power saving value in each month as specified in the agreement. The period of payment starts when the cogeneration project is complete and will pay some saving amount according to Energy Performance Contract.

Economic & Business Forecast 2018

The global economy is expected to see a synchronized upswing in 2018. However, the geopolitical risks that can affect the economy and international trade still remain. The tension in Korean peninsula, the decision on Brexit bills and the tendency towards protectionism policy of many countries could play important roles in reversing the global economy outlook in 2018. In addition, the probable FED rate hike may cool down the US growth and consequently affects the global trades.

Thailand economy in 2018 should continue to see a moderate growth driven mainly by growing export and thriving tourism. The uncertainties could arise in the latter half of the year during the expected general election which can have significant impact to people's confidence and thus the overall economy.

The agricultural price recovery is expected in 2018 due to the higher global demand. Meanwhile, the government agricultural supporting policies are supposed to be in effect during the farming season. Combining with the adequate water supply to farmland, these factors are crucial positive drivers for the agricultural sector and the Company's operation in 2018, as they will raise the purchasing power of farmers and encourage them to start cultivation. With these reasons, the demand for chemical fertilizer is likely to see the uptrend in 2018.

On the other hand, the higher raw material prices and the weaker Baht due to the US rate hike could also drive cost up and bring gross profit margin down. The Management will deal with these factors and strive to achieve best performance by carrying out the following measures:

- Retain customers and farmers' satisfaction
- Keep high standard of products quality
- Keep monitoring the market closely and adjust inventory level, production and procurement plan to quickly respond to the market demand
- Manage and control all expenses effectively
- Continuously pursue for better manufacturing process and higher productivity
- Avoid any speculations on raw material prices and foreign currency

