

14. Management Discussion and Analysis

14.1 Overview of the Operating Performance

According to the year of 2017, the changes of operating performance were as follows;

The areas of sugarcane plantation and the number of contract farming has steadily increased year over year regarding to the policy of the Company to support the sugarcane farmers who plant in the surrounding areas of sugar manufacturing factory in order to generate the increase of crop yield per Rai as well as the good quality of sugarcanes and also develop the management system for steady harvest crop yield and profit of farmers in which the Company can increasingly produce the sugar products constantly. Besides, the drought in the previous crop year happened first time in the several years had the terrible impact on the sugar price to be increased accordingly.

The total revenue of the Company in 2015, 2016 and 2017 were equivalent to 4,295.85 Million Baht, 4,685.53 Million Baht and 5,895.76 Million Baht respectively which has steadily increased year over year because the Company has increasingly produced and distributed molasses, fertilizers and electricity.

Nevertheless, approximately 72 - 80% of the total revenue from sugar sales is derived from the revenue from export sugar sales which refers to the global sugar market price therefore the global sugar market price affects to the revenue of the Company. The average price of New York Sugar No.11 in 2012 was 21.57 Cents/Pound which was decreased to 17.47 Cents/Pound and 16.34 Cents/Pound in 2013 and 2014 respectively therefore the revenue from sugar sales was slightly decreased from 2,931.28 Million Baht in 2013 to 3,037.72 Million Baht in 2014. Additionally, although the average price of New York Sugar No.11 in 2015 was decreased by 14.37 Cents/Pound, the sale volume was increased therefore the revenue from sugar sales was raised to 3,072.30 Million Baht. Consequently, the Company produced and distributed sugar, increased from 189,000 tons in 2013 to 201,000 tons in 2014, and 226,000 tons, 232,000 tons and 250,000 tons in 2015, 2016 and 2017 respectively. However, the changes of average raw sugar prices affect to the revenue more than sale volume. According to the business operation of by-products, the subsidiary of the Company, Buriram Energy Company Limited or BEC which is the bagasse-based biomass power plant, initially generated and distributed the commercial electricity to Provincial Electricity Authority (“PEA”) in May 2012. Furthermore, one of the subsidiaries of the Company which is Key Brand Fertilizer Company Limited or KBF started the operation of organic fertilizer manufacturer and distributor in November 2012 which can create the value-added products from by-products and also generate more profits and more positive cash flow from operating activities constantly. Another subsidiary of the Company which is Buriram Power Company Limited or BPC which is the bagasse-based biomass power plant, initially

generated and distributed the commercial electricity to PEA in April 2015 therefore the Company was able to completely pay long-term loans as scheduled in 2014 and 2015 and took the rest of loan cash for further investment in order to enhance the long-term competitiveness in the future.

The net profits of the business group in 2015, 2016 and 2017 were equivalent to 272.34 Million Baht, 113.32 Million Baht, and 525.41 Million Baht respectively. In 2015, although the global average sugar price was dropped, the net profit had been increased which was derived from the revenue of the second biomass power plant of the Company or BPC, initially generated and distributed the electricity in 2015. On the other hand, the net profit of 2016 was decreased since the cost of raw materials and the production cost were raised which was the effect from the drought. In 2017, the net profit was increased due to the increased production and sales of sugar, molasses, and other by-products, and the global sugar price was raised.

The total assets of year ended on December 31, 2015, 2016 and 2017 were equivalent to 6,764.47 Million Baht, 7,226.85 Million Baht and 9,232.74 respectively. The increase of total assets was mostly derived from the increase of sugarcane advance payment loan for sugarcane farmers in accordance with the increase of production capacity, the increase of investment on lands, buildings and equipment for the expansion of production capacity, the investment on the ongoing products development such as the electricity generation from bagasse and the fertilizer production from filter cake. Hence, the account receivables of year ended on December 31, 2015 and 2016 decreased to 227.94 Million Baht and 214.99 Million Baht respectively, compared to account receivables of year ended 2014 which was equivalent to 302.87 Million Baht, since the distribution for export sugar was operated and recognized in the end of 2014.

The total liabilities of year ended on December 31, 2015, 2016 and 2017 were equivalent to 4,638.30 Million Baht, 5,134.08 Million Baht and 6,760.20 Million Baht respectively. The increase of total liabilities was mostly derived from the increase of short-term loans from financial institutions according to the increasing number of sugarcane farmers as well as the investment in sugar manufacturing factory and power plant therefore the Company had to raise the short-term loans in order to pay the sugarcane advance payment loan which was increased accordingly.

The total shareholders' equity of year ended on December 31, 2015, 2016 and 2017 were equivalent to 2,126.17 Million Baht, 2,092.77 Million Baht and 2,472.54 Million Baht respectively. The increase of total shareholders' equity was mostly derived from the increasing proportion of shareholders constantly according to the satisfactory of operating performance and capital increase, particularly the stock dividend payment in 2017.

According to the year of 2016, the new financial reporting standards have been effective. However, the new financial reporting standards as mentioned have no any effects on financial statement of the Company significantly.

14.2 The Analysis of Operating Results

A. Revenue

	Audited Financial Statement of Year Ended					
	31 Dec 2015		31 Dec 2016		31 Dec 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
1. Revenue from Goods Sold and Services Rendered						
1.1 Revenue from Sugar and Molasses Sales						
1.1.1 Sugar						
Domestic Sales						
Brown Sugar	966.06	22.49	1,162.02	24.80	1,144.94	19.42
Total Revenue from Domestic Sales	966.06	22.49	1,162.02	24.80	1,144.94	19.42
Export Sales						
Brown Sugar	-	-	53.29	1.14	6.67	0.11
Raw Sugar	2,094.33	48.75	2,230.29	47.60	3,114.99	52.83
Total Revenue from Export Sales	2,094.33	48.75	2,283.58	48.74	3,121.66	52.95
Total Revenue from Sugar Sales	3,072.30	71.51	3,445.60	73.54	4,266.60	72.37
1.1.2 Molasses						
Domestic Sales	369.99	8.61	283.60	6.05	437.44	7.42
Total Revenue from Molasses Sales	369.99	8.61	283.60	6.05	437.44	7.42
Total Revenue from Sugar and Molasses Sales	3,430.39	79.85	3,729.19	79.59	4,704.04	79.79
1.2.1 Revenue from Electricity Sales	279.00	6.49	383.81	8.19	492.14	8.35
1.2.2 Revenue from Fertilizer Sales	378.30	8.81	328.83	7.02	335.51	5.69
1.2.3 Revenue from Other Goods Sold and Services Rendered	138.96	3.23	137.38	2.93	208.75	3.54
Total Revenue from Other Related Businesses	796.26	18.53	850.02	18.14	1,036.40	17.58
Total Revenue from Goods Sold and Services Rendered	4,226.65	98.39	4,579.21	97.73	5,740.44	97.37
2. Other Revenues	63.08	1.47	95.22	2.03	151.72	2.57
3. Profit/Loss from Exchange Rate	6.12	0.14	11.09	0.24	3.59	0.06
Net Total Revenues	4,295.85	100.00	4,685.52	100.00	5,895.76	100.00

The Revenue from Sugar Sales and Service

According to the fiscal year ended from 31 December 2015 to 31 December, 2017, the Company generated the revenue from sugar sales and service in amount of 4,226.65 Million Baht, 4,579.21 Million Baht and 5,740.44 Million Baht respectively. Additionally, the revenue from sugar sales and service in 2016 and 2017 were increased, raised by 352.56 Million Baht or equivalent to 8.34% and 1,161.23 Million Baht

or equivalent to 25.36% respectively which was derived from the increasing amount of productions on molasses, fertilizers and electricity.

1.1 The Revenue from Sugar and Molasses Sales

The revenue from sugar and molasses sales is the main income of the Company which is equivalent to 80-85% of total revenue.

The Average Price and Quantity of Sugar and Molasses Distributed by the Company

	Audited Financial Statement of Year Ended		
	31 Dec 2015	31 Dec 2016	31 Dec 2017
Average price per ton	Baht per Ton	Baht per Ton	Baht per Ton
Brown Sugar for Domestic Sales	18,890	19,084	19,143
Brown Sugar for Export	-	14,737	19,057
Raw Sugar for Export	12,600	13,951	16,727
Molasses	4,113	3,898	4,464
Sale Quantity	Kilotons	Kilotons	Kilotons
Brown Sugar for Domestic Sales	50.92	60.82	59.81
Brown Sugar for Export	-	3.62	0.35
Raw Sugar for Export	167.50	171.10	186.23
Molasses	87.06	72.75	98.00

1.1.1 The Revenue from Sugar Sales

According to the year ended on 31 December 2016, the Company generated the revenue from sugar sales in amount of 3,445.60 Million Baht, compared to the year ended on 31 December 2015, which was raised by 385.21 Million Baht or equivalent to 12.59% . The increase of sugar sales revenue was derived from the increase of sale quantity and the increase of average price compared to the same period of 2015.

Furthermore, according to the year ended on 31 December 2017, the Company generated the revenue from sugar sales in amount of 4,266.60 Million Baht, compared to the year ended on 31 December 2016, which was raised by 821.00 Million Baht or equivalent to 23.84% . The increase of sugar sales revenue was derived from the increase of sale quantity and the increase of average price compared to the same period of 2016.

1.1.2 The Revenue from Molasses Sales

According to the year ended on 31 December 2016, the Company generated the revenue from molasses sales in amount of 283.60 Million Baht, compared to the year ended on 31 December 2015, which was dropped by 86.39 Million Baht or equivalent to 23.35% . The decrease of molasses sales revenue was

derived from the selling price per unit was dropped by 215 Baht per ton and the molasses damaged from the storing by 13,000 tons.

According to the year ended on 31 December 2017, the Company generated the revenue from molasses sales in amount of 437.44 Million Baht, compared to the year ended on 31 December 2016, which was raised by 153.84 Million Baht or equivalent to 54.25% . The increase of molasses sales revenue was derived from the increased sugar production and the selling price per unit was raised by 566 Baht per ton.

1.2 The Revenue from Other Related Business

1.2.1 The Revenue from Electricity Sales

According to the year ended on 31 December 2015, the Company generated the revenue from electricity sales in amount of 279.00 Million Baht, compared to the year ended on 31 December 2014, which was raised by 96.47 Million Baht or equivalent to 52.85% . The increase of electricity sales revenue was derived from the second power plant of the Company had initially operated and officially distributed the electricity to PEA in April 2016.

According to the year ended on 31 December 2016, the Company generated the revenue from electricity sales in amount of 383.81 Million Baht, compared to the year ended on 31 December 2015, which was raised by 104.81 Million Baht or equivalent to 37.56 % . The increase of electricity sales revenue was derived from the second power plant of the Company distributed the electricity to PEA for whole year of 2016.

According to the year ended on 31 December 2017, the Company generated the revenue from electricity sales in amount of 492.14 Million Baht, compared to the year ended on 31 December 2016, which was raised by 108.33 Million Baht or equivalent to 28.22 % . The increase of electricity sales revenue was derived from the increased electricity generation, and in 2017 the amount of electricity sold was 109 Million Kilowatts, which was raised by 15 Million Kilowatts.

1.2.2 The Revenue from Fertilizer Sales

The revenue from fertilizer sales of the Company is one of the business strategies by supporting sugarcane farmers to plant sugarcanes and selling them to the Company in order to minimize risk from insufficiency of raw materials.

In 2015, 2016 and 2017, the Company generated the revenue from fertilizer sales in amount of 378.30 Million Baht, 328.83 Million Baht and 335.51 Million Baht respectively. In the period of 2016, the revenue from fertilizer sales decreased which was derived from the increase of organic fertilizers production volume that generated lower returns than chemical fertilizers. In 2017, the revenue from fertilizer sales

increased which was derived from the increased chemical fertilizers volume that generated higher returns than organic fertilizers.

1.2.3 The Revenue from Other Sales and Services

The revenue from other sales and services mainly consists of by-product sales from sugarcane planting such as bagasse and agricultural equipment needed such as diesel fuel for agricultural machines, pesticides including cutting sugarcane service fee and so on.

1.3 Other Revenues

The other revenues of the Company for year ended on December 31, 2015, 2016 and 2017 were equivalent to 63.08 Million Baht, 95.22 Million Baht and 151.72 Million Baht respectively. The other revenues of the Company were mainly from profits on disposal of assets, bad debt recovery, interest received, and so on. According to year ended on 2016, other revenues were raised by 31.97 Million Baht which was derived from the compensation from an insurance company. In 2017, other revenues were raised by 56.50 Million Bath due to the interest received from sugarcane advance payment loans in amount of 53 Million Baht.

B. Cost of Goods Sold and Services Rendered

1. The Business of Sugar and Molasses Manufacture and Distribution

	Audited Financial Statement of Year Ended					
	31 Dec 2015		31 Dec 2016		31 Dec 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Raw Material (Sugarcanes)	1,913.92	71.89	2,271.82	72.43	2,684.30	73.98
Packaging Cost	43.91	1.65	36.67	1.16	44.41	1.22
Direct Labor Cost	139.92	5.25	130.56	4.16	142.51	3.93
Manufacturing Overhead	270.74	10.17	349.99	11.15	409.96	11.30
Cash Remittance to Office of Cane and Sugar Fund	293.96	11.04	347.99	11.10	347.02	9.57
Total sugar and molasses production cost	2,662.05	100.00	3,137.03	100.00	3,628.20	100.00

According to the fiscal year of 2015, 2016 and 2017, the raw materials cost was equivalent to 71.89% , 72.43% and 73.98% respectively. However, the raw materials cost had rarely changed since the sugar price had slightly adjusted; therefore, the materials cost was quite steady in compliance with the 70:30 Profit Sharing System between sugar manufacturing factory and sugarcane farmers.

2. Other Related Businesses

The cost of sales from other related businesses is mainly included the cost of electricity generation and distribution, the cost of fertilizer production and distribution as well as other costs of sale.

The main cost of electricity generation and distribution is namely bagasse and the depreciation of buildings and machines in electricity generation process.

The cost of fertilizer production and distribution is divided into 2 parts which are the commerce of chemical fertilizers and organic-chemical fertilizers, and organic fertilizers produced by the company itself. The cost of fertilizer production is included the filter cake, the depreciation of buildings and machines as well as the plant nutrient chemicals for combination of quality organic fertilizers.

Other costs of sales mainly consist of the cost of agricultural materials such as pesticides, sugarcane variety which are traded to support the farmers, including diesel fuel for agricultural machines as well.

	Audited Financial Statement of Year Ended					
	31 Dec 2015		31 Dec 2016		31 Dec 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Cost of Electricity Sales						
Raw material	91.70	47.03	132.73	52.34	162.83	47.34
Direct Labor Cost	26.19	13.43	22.34	8.82	27.30	7.94
Manufacturing Overhead	77.10	39.54	98.48	38.84	153.81	44.72
Total Cost of Electricity Sales	194.99	100.00	253.55	100.00	343.94	100.00
Cost of Fertilizer Sales						
Raw material	229.85	68.78	214.45	73.18	224.07	85.82
Direct Labor Cost	13.25	3.96	11.45	3.91	10.92	4.18
Manufacturing Overhead	35.13	10.51	31.45	10.83	26.09	10.00
Trading Goods	55.90	16.72	35.39	12.08	-	-
Other Costs	-	-	-	-	-	-
Total Cost of Fertilizer Sales	334.19	100.00	293.04	100.00	261.08	100.00
Other Costs						
Trading goods	97.33	74.63	129.51	95.91	186.32	95.54
Other Costs	33.08	25.37	5.51	4.09	8.68	4.46
Total Others Costs	130.41	100.00	135.02	100.00	195.00	100.00

C. Gross Profit

According to the year ended on 31 December 2014 and 2015, total gross profit of the Company was equivalent to 830.63 Million Baht or 21.19% and 905.00 Million or 21.14% Baht respectively which slightly decreased year over year. Although the global sugar market price was increasingly dropped, the production volume of sugar sales had been increased steadily, in addition, the operation of second power plant was operated for sales in April 2015 therefore generated the total gross profit in 2014 and 2015 was slightly different.

The gross profit in year ended of 2016 was equivalent to 760.57 Million Baht or 16.61% of gross profit margin which was decreased since the global sugar market price was raised therefore it affected the price increase of sugarcane cost which is the main raw material.

The gross profit in year ended of 2017 was equivalent to 1,312.22 Million Baht or 22.85% of gross profit margin which was increased since the global sugar market price was raised at the first half of the year 2017.

Gross Profit Margin Classified by the Revenue of Each Business

(Unit: Percentage)

	Audited Financial Statement of Year Ended		
	31 Dec 2015	31 Dec 2016	31 Dec 2017
Sugar and Molasses Manufacture and Distribution	15.87	15.82	22.87
Electricity Production and Distribution	30.06	33.94	30.11
Fertilizer Production and Distribution	11.66	10.88	22.18
Other Sales and Services	6.15	3.37	6.58

1. The Business of Sugar and Molasses Manufacture and Distribution

Gross profit margin on the business of sugar and molasses manufacture and distribution was derived from 3 main factors, namely: 1) global sugar market price, 2) the average sale price differences of Quota B and C and 3) the amount of sugar per ton.

The cost of sugar production can be classified into 2 parts which are the cost of raw materials and the cost of milling process. The cost of raw materials has been changed according to 70:30 Profit Sharing System which describes that if the sugar price is increased, the sugarcane cost will be increased as well. On the other hand, if the sugar price is decreased, the sugarcane cost will be decreased as well. Nonetheless, the cost of milling process has not been changed regarding to the changes of global sugar market price therefore if the global sugar market price is raised, the gross profit margin will be increased. In contrary, if the global sugar market price is dropped, the gross profit margin will be decreased as well.

According to the 70:30 Profit Sharing System, the average sugar price of Quota B is the variable to determine the price of raw materials to calculate the revenue of export sugar sale in Thailand and deduct by the expense of milling processes respectively in order to allocate the profit to sugarcane farmers by 70% and sugar manufacturing factory by 30%. In addition, 70% of allocation to farmers will be determined as floor price of the raw material which generates the standard raw material price per unit for whole industry. However, approximately 85% of export sugar is Quota C and 15% of export sugar is Quota B therefore any sugar distributor who can sell Quota C, at higher price than the average price of Quota B,

will have higher gross profit margin. Nevertheless, the sale price difference of Quota B and C will not be steady depending on the world situations and the decisions of distributors on sugar sales.

Regarding the sugar production volume per ton is not certain every year depending on the quality of raw materials, however, the other costs of milling processes has not been changed according to the quality of raw materials. Therefore, if the Company can increase the crop yield per ton, the revenue and gross profit margin will be increased as well.

Gross profit margin of sugar business in year ended of 2016 and 2017 is equivalent to 15.82% and 22.85% respectively which was increased by 44.43%. It was derived from the export sugar sale volumes of the Company was equivalent to 70-80% of the total sugar sales volumes. Meanwhile, the global sugar market price in 2017 was increased which affected to the increase of average sale price of the Company and also affected to the increase of gross profit as well.

2. Other Related Business

Gross profit ratio for the business of fertilizer production and distribution has been changed uncertainly since the business operation is included production, distribution and chemical fertilizer trading. The production of fertilizer for sales is determined the price by using cost plus method, meanwhile, the fertilizer trading for sales is purchased as the whole sale and sell to farmers gradually by pricing as to the fertilizer market price in that time. Therefore, the Company may sell the products below cost which generate the unsteady gross profit margin of the fertilizer business. Nevertheless, the business of fertilizer production and distribution is operated for the main purpose of supporting the sugarcane farmers who signed the contract farming in order to increase the crop yield as well as the quality which affects to the better quality and higher crop yield of sugar and molasses business including the by-products business, for example, the efficient increase of electricity production.

D. Selling Expenses

	Audited Financial Statement of Year Ended					
	31 Dec 2015		31 Dec 2016		31 Dec 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Logistics Transportation	45.34	25.80	77.12	45.19	104.61	54.01
Export	102.33	58.23	61.33	35.94	62.17	32.10
Cargo Storage	13.17	7.50	16.23	9.51	9.67	4.99
Other Expenses	14.89	8.47	15.95	9.34	17.22	8.89
Total	175.73	100.00	170.63	100.00	193.67	100.00

The selling expenses are mainly from logistics and export. The factor affecting to logistics transportation expense is transportation rate per trip, and sugar sale volume each year. According to year ended of 2017, the export expense was raised in line with the increase of sugar export volume.

E. Administrative Expenses

	Audited Financial Statement of Year Ended					
	31 Dec. 2015		31 Dec. 2016		31 Dec. 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Employee Compensation	159.40	45.94	162.81	43.19	184.22	44.82
Professional and Consultancy Fee	31.64	9.12	27.23	7.22	34.01	8.27
Transportation	18.59	5.36	15.29	4.06	22.79	5.54
Maintenance	7.62	2.20	6.40	1.70	5.21	1.27
Supplies Expense	8.01	2.31	12.25	3.25	8.55	2.08
Asset Depreciation	22.68	6.54	23.96	6.35	26.33	6.41
R&D	12.04	3.47	2.39	0.67	2.10	0.51
Charity Expense	7.94	2.29	6.31	1.67	6.74	16.40
Allowance for Doubtful Accounts	2.62	0.76	14.02	3.72	8.93	2.17
Allowance for Impairment Losses	0.00	0.00	42.66	11.32	17.38	4.23
Pension Fund	3.37	0.97	4.08	1.08	4.19	1.02
Sugarcane and Sugar Supportive Fund	13.79	3.97	2.41	0.64	0.00	0.00
Amortization	0.00	0.00	2.91	0.77	2.17	0.53
Electricity	3.64	1.05	2.51	0.07	2.23	0.54
Others	55.55	16.01	51.73	13.72	86.19	20.97
Total	346.94	100.00	376.96	100.00	411.05	100.00

Administrative expenses mainly consisted of employee compensation and professional and consultancy fee.

In 2016, the administrative expenses were raised by 30.02 Million Baht or 8.65% compared to 2015 which was derived from these following factors;

- 1) Provision for asset impairment on the events of molasses tank damaged about 44 Million Baht in which the Company is currently claiming the compensation from the insurance company.
- 2) The allowance for doubtful accounts for account receivables that accrued for over the period approximately 14 Million Baht in which the Company is currently in progress.
- 3) The decrease of sugarcane and sugar supportive fund approximately 10 Million Baht including the decrease of other expenses which is derived from the expense control and management.

According to year ended of 2017, the administrative expenses were raised by 34.09 Million Baht or 9.04% compared to 2016 which was derived from these following factors;

- 1) Employee compensation was increased to 21.41 Million Baht or 44.82% since the base salary and annual bonus payment were increased in 2017.
- 2) Loss from the damaged assets which were unused or losses was accounted by 17.37 Million Baht.

Financial Cost

According to the financial statements year ended on 31 December 2015, 2016 and 2017, the financial cost was equivalent to 125.49 Million Baht, 176.70 Million Baht and 283.78 Million Baht respectively. The increase of financial cost was derived from that the Company took on short-time loans increasingly in order to increase sugar production volume and also provide greater amount of advance credits to sugarcane farmers in accordance with the increase of planting areas.

F. Earnings Before Taxes

According to the financial statements year ended on 31 December 2015, 2016 and 2017, the earnings before taxes were equivalent to 326.05 Million Baht, 142.61 Million Baht and 611.45 Million Baht respectively. The increase or decrease of earnings before taxes each year was derived from the increase or decrease of gross profit in each year by 905.00 Million Baht in 2015 and decreased by 760.57 Million Baht in 2016.

G. Corporate Income Tax

According to the financial statements year ended on 31 December 2015, the corporate income tax of the Company was equivalent to 53.70 Million Baht which was slightly increased from the previous year. Regarding to the increasing profit of operating performance on sugar business and the tax benefits on the business of electricity producer, the corporate income tax of the Company was generally decreased.

Furthermore, according to the financial statements year ended on 31 December 2016, the corporate income tax of the Company was equivalent to 29.28 Million Baht which was decreased compared to the same period in the previous year. Regarding to the decreased profit of operating performance on sugar business, and the profit of electricity business received tax benefits was similar to the previous year. The overall corporate income tax of the Company was generally decreased.

According to the financial statements year ended on 31 December 2017, the corporate income tax of the Company was equivalent to 86.03 Million Baht which was increased from the previous year. Regarding to the increasing profit of operating performance on sugar business, it had to pay increasing tax. For electricity business which did not receive tax privileges, such tax was also increased.

H. Net Profit

According to the financial statements year ended on 31 December 2015, 2016 and 2017, the net profit was equivalent to 272.34 Million Baht, 113.32 Million Baht and 525.41 Million Baht respectively. In 2016, the net profit was dropped which was derived from the rising cost of sugarcanes (raw material) according to the increase of global sugar market price. In 2017, the net profit was increased due to the increase production and sale volume of sugar, molasses and other by-products, and the increase of global sugar market price.

14.3 Financial Position Analysis

A. Assets

The operation of sugar business is quite different from other businesses since it complies with the planting and harvesting season of sugarcanes which start planting in October and harvesting in the period of November to April in the following year. The sugar manufacturing factory purchases sugarcanes and produces sugar only in the harvesting season which generates the extra list of assets excluded in other business which is sugarcane farmer account receivables or the advance credit payment for farmers in order to support sugarcane farming in many ways such as fertilizers, agricultural equipment and machines. In the harvesting season, sugarcane farmers will deliver the sugarcanes to the factory; however, the sugarcane farmers will receive the total income after deducted by the amount of advance credits. Nevertheless, the advance credits will be paid to sugarcane farmers since the beginning of the planting season.

The assets of the Company as of year ended on 31 December 2015, 2016 and 2017 were equivalent to 6,764.48 Million Baht, 7,226.86 Million Baht and 9,232.74 Million Baht respectively.

Nonetheless, the total assets of the Company as of 31 December 2017 were raised by 2,005.89 Million Baht or 27.76% compared to 31 December 2016. The significant changes are that the fixed assets were increased since the production capacity was adjusted from 17,000 ton per day to 24,000 tons per day and the investment on biomass power plant of Buriram Energy Company Limited (BEC), Buriram Power Company Limited (BPC) and Buriram Power Plus Company Limited (BPP), and the investment of Buriram Sugar Group Power Plant Infrastructure Fund considered as the investment in an associate.

1. Current Assets

The current assets of the Company as of year ended on 31 December 2015, 2016 and 2017 were equivalent to 1,997.05 Million Baht, 2,096.05 Million Baht and 2,655.50 Million Baht respectively. The main elements of current assets are sugarcane farmer account receivables and inventory. In addition to the year of 2016, the current assets were raised gradually which was derived from that the sugarcane farmer

account receivables were increased since the advance credits for farmers were increased as well in line with the increase of supportive planting areas. Furthermore, in the year ended of 2017, the inventories were increased from the rising production volume after the investment on expansion of sugar manufacturing.

Account Receivables

The account receivables of the Company were mainly from the business of sugar manufacture and distribution as well as the related business, for example, the electricity sales, the customers of the Company were generally the major international distributors and state enterprises which have the excellent financial position, however, the Company always audits the changes of their financial position in order to prevent the problems from bad debts.

Average collection period of the Company for year ended from 2015 to 2016 was 6 days in compliance with credit terms for the customers and determined the payment period of 3-7 days for domestic customers, 3-15 days for international customers, and 30 days for the business of electricity production and distribution. If the average collection period is short, the value of account receivable in the end of period will depend on revenue from sales before the end of period. Therefore, the account receivables for year ended on 31 December 2017 were equivalent to 255.56 Million Baht which was higher than year ended of 2015 and 2016 since the sugar was sold almost at the end of period.

Sugarcane Farmer Receivables (Net Total)

Regarding to the business of sugar manufacture and distribution, the Company provides the advance credits for sugarcane farmers in order to support sugarcane farming. For year ended on 31 December 2015, 2016 and 2017, the sugarcane farmer receivables-net were equivalent to 701.90 Million Baht, 990.06 Million Baht and 868.43 Million Baht respectively. The sugarcane farmer receivables-net for year ended on 31 December 2016 were higher than the year 2015 and 2017 due to the factory delayed its starting of sugar production for 2016/2017 crop year compared to the previous year. In the production period, the sugarcane farmers had delivered the sugarcanes and sold to the Company, in the same time, they also paid for the advance credits which generated the decrease of sugarcane farmer receivables. Furthermore, the increase of planting areas and the advance credits withdrawal of farmers had raised the number of receivables.

Sugarcane Farmer Receivables of the Company Classified by the Aged Overdue Receivables

	Audited Financial Statement of Year Ended					
	31 Dec. 2015		31 Dec. 2016		31 Dec. 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Production Season of 2018/2019	-	-	-	-	132.17	13.81
Production Season of 2017/2018	-	-	330.48	30.88	650.33	67.95
Production Season of 2016/2017	121.47	15.53	585.51	54.73	54.46	5.69
Production Season of 2015/2016	526.84	67.31	39.87	3.73	21.06	2.20
Production Season of 2014/2015	40.88	5.23	24.29	2.28	16.87	1.76
Production Season of 2013/2014	4.49	0.57	3.33	0.32	2.74	0.29
Production Season of 2012/2013	1.34	0.17	1.22	0.11	0.92	0.10
Production Season of 2011/2012	1.09	0.13	0.99	0.07	0.97	0.10
Before Production Season of 2011/2012	86.50	11.06	84.23	7.88	77.56	8.10
Total Sugarcane Farmer Receivables	782.61	100.00	1,069.92	100.00	957.08	100.00
Allowance for Doubtful Accounts	(80.71)	(10.31)	(79.86)	(7.46)	(88.65)	(9.26)
Net Total Sugarcane Farmer Receivables	701.90	89.69	990.06	92.54	868.43	90.74

The Company has the strict policies for advance credit to farmers and also consider many factors experienced by the debt collection of the Company in the past, for example, the ability to repay, the planting areas, crop yield per Rai including the field survey by the employees of the Company to make sure the receivables can deliver the sugarcanes as the debt repayment. Furthermore, the Company will establish the allowance for doubtful accounts after considering that any of farmers cannot repay loans. For instance, the outstanding debts for 2 previous crop years or the future income of receivables that the Company projected shown that farmers cannot afford or generate the profits enough to repay loans within 5 years or the farmers quitted planting or any other relevant matters shown the inability to repay, etc. Therefore, the Company established the allowance for doubtful accounts in 2013 by 20.33 Million Baht which included all receivables. For the year of 2017, the Company established more allowance for doubtful accounts by 10.30 Million Baht derived from the old receivables due to the inaccuracy of the receivables' collateral value.

Inventory

	Audited Financial Statement of Year Ended					
	31 Dec. 2015		31 Dec. 2016		31 Dec. 2017	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Finished Goods	574.32	80.10	471.55	80.23	901.77	84.55
Byproducts	-	0.00	-	0.00	-	0.00
Trading Goods	63.48	8.85	38.47	6.55	84.05	7.88
Inventory - Warehouse	37.20	5.20	22.55	3.84	32.67	3.06
Goods in Progress	4.67	0.65	8.83	1.50	8.20	0.77
Factory Supplies	37.29	5.20	46.31	7.88	39.85	3.74
Total Inventory	716.96	100.00	587.73	100.00	1,066.54	100.00
Allowance for Diminution in Value	(1.76)	(0.25)	(6.11)	(1.04)	(5.76)	(0.54)
Net Total Inventory	715.20	99.75	581.63	98.96	1,060.78	99.46

The finished goods primarily consist of sugar and some of by-products which are molasses, bagasse and filter cake, however, the Company sells and stores these finished goods as the fuel materials to generate the electricity and organic fertilizers respectively. The trading goods consist of fuel for the agricultural machines, chemical fertilizers, pesticides in order to sell to farmers in term of advance credits

According to year ended of 2015, the finished goods of the Company were equivalent to 574.32 Million Baht, raised by 127.10 Million Baht or 28.42% compared to 2014 which was derived from the increase of sugar volume from the increase of cane crushing.

According to year ended of 2016, the finished goods of the Company were equivalent to 471.55 Million Baht, dropped by 102.77 Million Baht or 17.89% compared to 2015 which was derived from the delay of sugarcanes received by the Company therefore the amount of sugar were decreased accordingly.

According to year ended of 2017, the finished goods of the Company were equivalent to 901.77 Million Baht, raised by 430.22 Million Baht or 91.23% compared to 2016, which was derived from the sugarcanes receiving season was operated faster than the year 2016, and the expansion of production capacity continued since 2016 leading to the increased sugar production according to the amount of sugarcane crushing.

2. Non-Current Assets

Non-current assets of the Company for year ended on 31 December 2015, 2016 and 2017 were equivalent to 4,767.43 Million Baht or 89.45%, 5,130.81 Million Baht or 91.30% and 6,577.24 Million Baht or 73.14% respectively which were mainly lands, building and equipment.

Land, Building and Equipment

According to year ended of 2016, lands, buildings and equipment were increased derived from that the Company purchased machines in order to increase the production capacity from 17,000 tons per day to 24,000 tons per day. The purchase of lands was for the construction of new sugar manufacturing factory which was Chamni Sugar Factory Company Limited (CSF). Additionally, the purchase of machines was for the power plant construction which is Buriram Power Plus Company Limited (BPP).

According to year ended of 2017, lands, buildings and equipment were increased derived from the new molasses storage tank according to the expansion of sugar production capacity. The purchase of lands was for the construction of new sugar manufacturing factory: Buriram Capital Company Limited (BSC). Additionally, the purchase of machines was for the construction of 3 power plants.

B. Source of Funding

Capital Structure

According to financial statement for year ended of 2015, 2016 and 2017, shareholders' equity was equivalent to 2,126.17 Million Baht, 2,092.77 Million Baht and 2,472.52 Million Baht respectively. The operating performance of the Company generated the increase of debt to equity ratio by 2.45 times for year ended of 2016 and 2.73 times for year ended of 2017 due to the business group's increased liabilities from loans which was derived from the Buriram Energy Company Limited (BEC) and Buriram Power Company Limited (BPC) have contracted the net revenue transfer agreement under the Buriram Sugar Group Power Plant Infrastructure Fund.

C. Liabilities

The total liabilities for year ended on 31 December 2015, 2016 and 2017 were equivalent to 4,638.30 Million Baht 5,134.09 Million Baht and 6,760.20 Million Baht respectively which was mainly derived from trade account payables and other payables, short-term loans and long-term loans from financial institutions.

According to the financial statement for year ended on 31 December 2015, 2016 and 2017 the trade account payables and other payables of the Company were equivalent to 512.26 Million Baht, 602.35 Million Baht and 716.12 Million Baht respectively which were mainly the sugarcane raw material payables. The changes of the sugar raw material payables depend on the increasing or decreasing quantity of sugarcane purchased by the Company before the end of period in line with the quantity of sugarcanes harvested and delivered to the Company.

According to the financial statement for year ended on 31 December 2015, 2016 and 2017 the short-term loans from financial institutions were equivalent to 1,475.17 Million Baht, 1,710.25 Million Baht

and 1,136.30 Million Baht respectively. In 2016, the short-term loans from financial institutions were increased derived from the sugarcane farmers joining the agricultural supportive project had increased; therefore, the Company had to provide the supportive fund for sugarcane farming by taking on loans for this matter including the production of finished goods for sales as well.

According to the financial statement for year ended on 31 December 2015, 2016 and 2017 the long-term loans from financial institutions were equivalent to 1,694.49 Million Baht, 1,891.67 Million Baht and 1,247.07 Million Baht respectively. The details of loans as of 31 December 2017 are as follows:

Loan No.	Loan Limit (Million Baht)	Interest Rate	Outstanding Loan Balance (Million Baht)
1	460.00	MLR-1.25	316.00
2	300.00	MLR-2.375	175.00
3	365.00	MLR-2.50	243.20
4	300.00	MLR-1.00	229.00
5	400.00	3.80%	266.67
6	30.00	MLR	13.18
7	5.20	MLR-1.00	4.02

D. Shareholders' equity

Shareholders' equity for the year ended on 31 December 2015, 2016 and 2017 were equivalent to 2,125.58 Million Baht, 2,092.77 Million Baht and 2,472.54 Million Baht respectively. The figures have increased because of the operating performance of the Company and stock dividend payouts.

E. Liquidity

(Unit : Million Baht)

Details	Audited Financial Statement of Year Ended		
	31 Dec. 2015	31 Dec. 2016	31 Dec. 2017
Cash flow before changes in asset and operational liability	556.59	550.04	1,056.51
Net cash flow from (used in) operating activities	77.33	397.43	470.31
Net cash flow on investing activities	(1,271.72)	(798.19)	(1,647.95)
Net cash flow from (used in) financing activities	1,059.78	272.18	1,321.36
Net increase (decrease) in cash flow	(134.61)	(128.58)	143.72

Net Cash Flow from Operating Activities

Cash flow before changes in asset and operational liability for year ended 31 December 2015 was higher than the previous year due to the Company's increasing profit in commercial electricity distribution of 2 power plants and fertilizer business.

Cash flow before changes in asset and operational liability and net cash flow from operating activities for the year ended 31 December 2016 was slightly lower than the previous year as a result of increased materials cost.

Cash flow before changes in asset and operational liability and net cash flow from operating activities for the year ended 31 December 2017 were higher than the previous year due to an increase in the Company's profit from the sugar production and distribution according to the increasing output, and the raised global sugar price.

Net Cash Flow from Investing Activities

In 2015, the Company has funded 1,300 Million Baht to the project for constructing the second biomass power plant continued from the year-end 2014 and increasing the capacity of sugar production from 17,000 to 24,000 tons of sugarcane per day, as well as constructing the third biomass power plant with the installed capacity of 9.9 megawatts.

In 2016, the Company invested approximately 800 Million Baht for constructing the third biomass power plant with the installed capacity continued from the year 2015.

In 2017, the Company invested approximately 1,600 Million Baht for the establishment of the Buriram Sugar Group Power Plant Infrastructure Fund as an associate company and invested in assets for the production of sugar and electricity businesses.

Net cash flow from financing activities

For the year ended on 31 December 2015, short-term loans from financial institutions have increased for 1,059.78 Million Baht while long-term loans from financial institutions were invested on the expansion of sugar production.

For the year ended on 31 December 2016, short-term loans from financial institutions have increased for 272.18 Million Baht while long term loans from financial institutions were invested on the expansion of sugar production and credits for expanding sugarcane plantations.

For the year ended on 31 December 2017, the Company had net cash flow from financing activities for 1,321.36 Million Baht due to the long-term loans from the associate company: Buriram Sugar Group Power Plant Infrastructure Fund and repayment for some of long-term loans to financial institutions.

Liquidity Ratio

	Unit	Audited Financial Statement of Year Ended		
		31 Dec. 2015	31 Dec. 2016	31 Dec. 2017
Liquidity Ratio	(times)	0.85	0.51	1.04
Quick Liquidity Ratio	(times)	0.57	0.31	0.63
Average Collection Period	(day)	6	6	5
Average Selling Period	(day)	72	72	67
Collection Period	(day)	71	71	54
Cash Cycle	(day)	-7	-7	-18

For the year ended on 31 December 2015, the Company's liquidity ratio had been improved by issuing debentures to repay for short-term loans. In 2016, the liquidity ratio dropped as the collection period for debentures was due. In 2017, the liquidity ratio had been improved due to the complete repayment for the debentures.

Profitability Ratio

For the year ended on 31 December 2015, gross profit margin and net profit of the Company were increased as a result of higher gross profit from commercial electricity distribution. In 2016, gross profit margin and net profit have reduced due to higher cost per sugar unit affected by drought. In 2017, gross profit margin and net profit of the Company were increased as a result of the raised sugar price according to the sugar market price.

Efficiency Ratio

For the year ended on 31 December 2015, 2016 and 2017, the asset turnover of the Company was equivalent to 0.71 times, 0.67 times and 0.72 times respectively. In 2016, the fall of asset turnover was the result of the Company's investment on increasing capacity on sugar production and construction of biomass power plants. This had caused higher asset value while there was only a slight increase of the Company's profits due to the decreased global sugar price.

Ratio Analysis

In 2015, shareholders' equity had increased to 2,126.17 Million Baht as a result of the Company's operating results and IPO for production. This had increased the debt to equity ratio to 2.18 times at the end of year 2015.

In 2016, shareholders' equity had dropped to 2,092.77 Million Baht due to decrease of the Company's operating results. The dividend payment in 2016 had made the debt to equity ratio increased to 2.45 times by the end of year 2016.

In 2017, shareholders' equity has increased to 2,472.53 Million Baht due to increase of the Company's operating results. The dividend payment in 2017 and the debt to equity ratio increased to 2.73 times by the end of year 2017.

Contingent Liability and Commitment

For year ended on 31 December 2017, the Company had outstanding letters of guarantee issued by financial institutions as contingent liability and commitment for the purchase of electricity from Provincial Electricity Authority (PEA) at 6.20 Million Baht.

Main Factors and Influences Affect to the Future Operations

World Sugar Prices

Since 60 percent of the Company's total revenue are from sugar export; therefore, world sugar price can affect the number of sales. Demand and supply of the market influence the price. Even though sugar price does affect the Company's profit, the company still uses 70:30 profit sharing system to calculate the price of sugarcanes used mainly for sugar production. For sugar industry in Thailand, whether the world sugar prices are either low or high, the price of sugarcanes vary in line with them.

Cost of Sugarcanes

Sugar industry in Thailand has set the appropriation of profit sharing system at 70:30 for sugarcane farmers and sugar manufacturers. Office of the Cane and Sugar Board calculates the prices of sugarcanes that the manufacturers need to pay for the farmers. The allocation of this pay is 70 out of 100.

Office of the Cane and Sugar Board calculates sugarcane prices in which sugar manufacturers will need to pay for farmers based on the average actual sales price that Thai Cane & Sugar Co., Ltd. (TCSC) has set from quota B. This means material cost varies in line with the price set by TCSC. If the Company sells sugar abroad at lower price than TCSC's actual selling price, the Company needs to pay higher price for sugarcanes compare to net sales of the Company. This may reduce the Company's profit. However, if the Company can sell more than the TCSC's average sales price, there will be more gains and profit margin.

Risk management for the above includes monitoring closely the fluctuation of the price and the selling price of TCSC in order to determine sales plan and ensure that the price set for quota C is reasonable and not less than the average sales price of TCSC.

Procurement of Raw Materials

Factors affecting sugarcane volume include:

- A. Changes in sugarcane plantation areas where farmers replace sugarcane with other plants that can yield higher profits. The government policy may encourage farmers to plant those alternative sources of energy such as palms, rubbers, and so on.
- B. Climate, rainfall, irrigation system, soil condition, types of sugarcane, sugarcane diseases, and other factors affecting the volume of sugarcane. Changes in those factors can reduce the volume of sugarcane.
- C. Competition between other sugar manufacturers and Buriram Sugar Factory Company Limited (“BSF”) can be seen when higher buying prices are offered to the farmers by other companies. As a result, BSF has less volume of sugarcane in stock.

Since sugarcane is the main material for sugar production, lower volume of sugarcane can have an impact on the productivity of the Company. This can result in the Company’s higher cost unit, lower earning per unit, and lower net profit respectively.

Government Control

Office of the Cane and Sugar Board is responsible for and overseeing Sugar industry in Thailand under the Cane and Sugar Act, B.E. 2527. This is the law that governs sugarcane and sugar manufacturing including sugarcane plantation management, sugar production in the factory, export, sugar sales allocation according to quotas (quota A: domestic sales, quota B and C sales abroad), domestic retail price, and profit sharing system between sugarcane farmers and mills at the rate of 70:30. The ministers of Ministry of Industry, Ministry of Agriculture and Cooperatives, and Ministry of Commerce are responsible for regulating the act according to changes in domestic sugar sales price, changes in rules and regulations or any policy of the act which may significantly affect the company’s operating profit and sugar manufacturers.

Rate of Exchange

Export revenues of the Company are recognized as the USD currency in which 80 percent are from sugar and molasses sales. The Company is exposed to have risk in case the rate of exchange is fluctuated and this can affect the business operations and revenue of the Company.

Future Projects

The Company has planned to invest in constructing a new sugar manufacturing plant to maximize highest benefits for sugarcane production. The accomplishment is believed to increase profits of the Company.

Other Relevant Information

- None -