

## Management Discussion and Analysis (“MD&A”)

### The 2016 Operating Performance

#### of TRC Construction Public Company Limited and Its Subsidiaries

(Unit : Million Baht)

	9-Month 2016	the 4 <sup>th</sup> Qtr 2016	2016	2015	Change (2016 - 2015)	
					Amount	Percentage
					Construction services income	2,707.76
Cost of construction services	-2,234.00	-712.65	-2,946.65	-3,242.39	-295.74	-9.12
Gross profit	<b>473.76</b>	<b>276.89</b>	<b>750.65</b>	<b>637.78</b>	<b>112.87</b>	<b>17.70</b>
Interest and other income	16.44	23.16	39.60	74.86	-35.26	-47.10
Administrative expenses	-240.18	-109.62	-349.80	-332.26	17.54	5.28
Doubtful debt (reversal)	0.00	-7.03	-7.03	-0.13	6.90	5,307.69
Profit before share of loss from investment in associate, finance cost and income tax expenses	250.02	183.40	433.42	380.25	53.17	13.98
Share of loss from investments in associate	-23.38	-9.56	-32.94	0.00	-32.94	N/A
Finance cost	-12.14	-4.89	-17.03	-4.76	12.27	257.77
Income tax expenses	-62.34	-36.00	-98.34	-74.54	23.80	31.93
Profit for the period	<b>152.16</b>	<b>132.95</b>	<b>285.11</b>	<b>300.95</b>	<b>-15.84</b>	<b>-5.26</b>
Non-controlling interests of the subsidiaries	5.28	0.37	5.65	5.01	0.64	12.77
<b>Profit attribute to equity holders of the Company</b>	<b>157.44</b>	<b>133.32</b>	<b>290.76</b>	<b>305.96</b>	<b>-15.20</b>	<b>-4.97</b>
Earnings per Share (Baht)			0.057	0.063		
Gross Profit Margin	17.50%	27.98%	20.30%	16.44%		
Net Profit Margin	5.78%	13.16%	7.78%	7.74%		
Debt to Equity (Time)	0.94		0.86	0.89		

### The 2016 Operating Performance Summary

#### 1. Construction Services Income Segment Comparison

(Unit: Million Baht)

Construction services income	2016		2015		Increase (Decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
- Pipeline system	1,796.41	48.59	1,970.97	50.80	(174.56)	(8.86)
- Engineering system	1,158.54	31.33	1,534.59	39.55	(376.05)	(24.50)
- Civil work	742.35	20.08	373.51	9.62	368.84	98.75
- Sales and other services	0.00	0.00	1.10	0.03	(1.10)	(100.00)
<b>Total</b>	<b>3,697.30</b>	<b>100.00</b>	<b>3,880.17</b>	<b>100.00</b>	<b>(182.87)</b>	<b>(4.71)</b>

Construction services income recorded at Baht 3,697.30 million decreasing Baht 182.87 million from last year or 4.71% due to petrochemical industry and economic recession, the postponement of project bidding and high completion. However, during 2016, TRC obtained a Letter of Award from APOT for the construction of Turnkey Delivery of APOT Project Package 2, Surface Processing and Facilities in Bamnet Narong, Chaiyaphum province from ASEAN Potash Chaiyaphum Public Company

Limited. The project's work value is approximately Baht 33,083 million. In May 2016, TRC received Notice to Proceed Early Works for Engineering and Site Survey & Preparation works, total value of Baht 711.36 million. The remaining services income of Baht 32,083 million will be recognized after EPC contract signing within 2017.

Construction services income in 2016 decreased from the previous year. Most of carried forward projects were gradually recognized as services income by the percentage of work completion method. Construction service income can be classified as follows:

- Pipeline system derived from the 1<sup>st</sup> Transmission Pipeline Life Extension Project 28" Recoating Section from PTT Public Company Limited and Construction and Improvement and Expansion of Waterworks, Koh Samui Branch, Koh Samui District, Surat Thani Province from Provincial Waterworks Authority awarded to Sahakarn Wisavakorn Co., Ltd.
- Engineering system derived from 450 TPD Biodiesel Plant, New Incinerator Project and Engineering Procurement and Construction for Dry Ice Expanded Tobacco Process, DIET Process (M-01/2) from Tobacco, Ministry of Finance
- Civil works derived from Srinakarin to Romkloa Road, Phase 1 Construction from Bangkok Metropolitan Administration and related state enterprises.

**2. Interest income and other income** recorded at Baht 3.20 million and Baht 36.39 million, respectively. The total amount was Baht 39.60 million, decreasing Baht 35.26 million or 47.10%. In 2015, the Company recorded other income Baht 63.83 million from gain on disposal of land in tambol Phutaluang, Chonburi province. In 2016, the Company's liquidity was less resulting a fewer excess cash for investment in the funds which providing high yield.

**3. Gross profit** was Baht 750.65 million increasing Baht 112.87 million. Gross profit margin was at 20.30% increasing from last year which was at 16.44%. The increase of gross profit due to effective project management. The actual cost was lower than the budget.

**4. Administrative expenses and finance cost** recorded at Baht 349.80 million and Baht 17.03 million, respectively. Administrative expenses increased Baht 17.54 million or 5.28% due to loss of exchange foreign currency rate from the adjustment of assets and liabilities as at end of year. That was loss in term of account recording which not yet incurred. The Company prevents exchange rate volatility by purchasing forward currency contracts. Finance cost increased Baht 12.27 million due to interest expenses from short-term loan and debentures. TRC issued debentures with 2-year term for using as working capital in July 2015 and March 2016 in the amount of Baht 100 million and Baht 200 million, respectively.

**5. Share of loss from investments in associate** was Baht 32.94 million due to the loss recognition by equity method from operating loss of APOT. At present, APOT is during processing of its Potash mining construction in Chaiyaphum Province.

**6. Profit attribute to equity holders of the Company** was Baht 290.76 million decreasing Baht 15.20 million or 4.97%. The net profit margin was 7.78%, nearly to the previous year net profit margin which was at 7.74%

## **Backlog on Hand**

As at 31 December 2016, the Company and its subsidiaries had projects on hand with the remaining uncompleted works as follows:

	Number of the Projects	Uncompleted Work Value (Million Baht)
TRC Construction Public Company Limited	3*	2,479.93
Sahakarn Wisavakorn Co., Ltd.	3	1,199.66
<b>Total</b>	<b>6</b>	<b>3,679.59</b>

\*Backlog on hand included Early Works (work value: Baht 711.36 million and uncompleted work value as at end of 2016: Baht 515.88 million) from Turnkey Delivery of APOT Project Package 2. Surface Processing and Facilities from APOT. However, it excluded the remaining project work value approximately of Baht 32,371.44 million because the EPCC Contract is still not signed. (TRC obtained a Letter of Award from APOT in February 2016.)

## Assets, Liabilities and Debt to Equity Ratio

### Analysis of Assets

	(Unit : Million Baht)			
	31 December 2016	31 December 2015	Increase (Decrease)	Percentage
Current assets	2,873.62	3,316.06	(442.44)	(13.34)
Non-current assets	2,129.54	1,255.81	873.73	69.58
Total assets	<u>5,003.16</u>	<u>4,571.87</u>	431.29	9.43

As at 31 December 2016, the Company and its subsidiaries recorded total assets of Baht 5,003.16 million increased Baht 431.29 million.

- Current assets decreased Baht 442.44 million.
  1. Cash and cash equivalents was Baht 109.03 million decreasing Baht 1,180.40 million or 91.54%.
    - 1.1 Net cash flows used in operating activities were Baht 388.94 million. The significant changes were from:
      - Change in advance paid to subcontractor under construction contracts Baht 368.55 million
    - 1.2 Net cash flows used in investing activities were Baht 1,038.13 million. The significant changes were from:
      - Cash paid for long-term investment in APOT's shares Baht 906.05 million
    - 1.3 Net cash flows from financing activities were Baht 246.64 million. The significant changes were from:
      - + Cash received from issuance of debentures Baht 200 million
  2. Unbilled receivable increased from Baht 1,203.02 million to Baht 1,762.97 million or 72.33% due to the recognition of revenues which have not yet been due as per contracts. The invoice will be issued when the fulfillment of conditions according to the construction contract.
- Non-current assets increased from Baht 1,255.81 million to Baht 2,129.54 million. During the first half of 2016, TRC Investment Limited made additional payment of Baht 906.05 million for APOT's share acquisition. After the adjustment with share of loss from investment in APOT of Baht 32.94 million, the investment in associate represented a net increase of Baht 873.56 million.

**Analysis of Liabilities and Shareholders' Equity**

(Unit : Million Baht)

	31 December 2016	31 December 2015	Increase (Decrease)	Percentage
Current liabilities	2,042.75	1,966.19	76.56	3.89
Non-current liabilities	276.56	185.03	91.53	49.47
Total liabilities	2,319.31	2,151.22	168.09	7.81
Shareholders' equity	2,683.85	2,420.65	263.20	10.87
Total liabilities and shareholders' equity	5,003.16	4,571.87	431.29	9.43

- Total liabilities increased from Baht 2,151.21 million to Baht 2,319.31 million. The significant increase was the issuance of debentures to be offered by way of private placement of Baht 200 million for using as working capital.
- Shareholders' equity increased from Baht 2,420.65 million to Baht 2,683.85 million or 10.87%.

Shareholders' equity opening balance	Baht 2,420.65 million
+ Issuance of ordinary shares by exercise of ESOP-W2	Baht 18.48 million
+ Total comprehensive income	Baht 290.49 million
- The dividend payment	Baht 45.64 million
- Others	Baht 0.13 million
Shareholder's equity closing balance	Baht 2,683.85 million

Debt to equity ratio decreased from 0.89 time as at the end of 2015 to 0.86 time as at 31 December 2016.

**Significant Events during 2016 – Present**

- **Issuance of Baht 200 million debentures**

On 10 March 2016, the Company issued No. 1/2016 unsubordinated and unsecured debentures without a debenture holders' representative in the name-registered certificate to be offered by way of private placement of Baht 200 million consisting of 200,000 units of debentures at par value of Baht 1,000 per unit at offering value of Baht 1,000 per unit with 2-year maturity at interest rate of 4.40% per annum and quarterly interest payment on 10 March, 10 June, 10 September and 10 December, starting from 10 June 2016.

- **Investment in ASEAN Potash Chaiyaphum Public Company Limited (“APOT”)**

In 2016, TRC Investment Limited increased its investment in APOT's shares by purchasing additional 4.525 million shares at Baht 200 per share, totaling Baht 905 million. As a result, TRC Group's shareholding in APOT increased to 26.62% consisting of 23.43% shareholding by TRC Investment Limited and 2.79% shareholding by TRC International Limited with APOT's paid-up capital as of 31 December 2016 at Baht 2,688.31 million.

- **TRC was chosen as one of the 100 listed companies in SET 100 index constituents (second half of 2016) and sSET index (first half of 2017)**

In June 2016, TRC was chosen by the Stock Exchange of Thailand (“SET”) for SET 100 index constituents calculating for the period 1 July to 31 December 2016. (SET50 Index and SET100 Index are indices to be used as underlying index by selecting the top 50 and 100 listed companies' securities respectively, in terms of large market capitalization and high liquidity.)

Later in December 2017, TRC was elected for sSET index constituents calculating for first half of 2017. sSET index represents the price movement of common stocks apart from constituents in the SET50 Index and SET100 Index, that have constant liquidity and comply with requirements regarding the distribution of shares to minor shareholders.

- **The end of TRC's ESOP-W2**

During 2016, there were newly issued shares from the 7<sup>th</sup>-9<sup>th</sup> exercising of ESOP's warrants total of 42,783,587 shares. The ESOP-W2 period ended on 30 June 2016.

- **Significant project acquisition in 2016**

On 10 February 2016, TRC obtained a Letter of Award from APOT informing that TRC has been selected as the successful bidder for the construction of Turnkey Delivery of APOT Project Package 2, Surface Processing and Facilities, from ASEAN Potash Chaiyaphum Public Company Limited. The project's work value is USD 142,027,205, EUR 416,000,784 and Baht 12,433,389,522 or approximately total of Baht 33,083 million with 3-year construction period. The company expects to sign construction EPC contract within 2017.

- **New awarded projects during January - February 2017**

**TRC:** The Natural Gas Transmission Pipeline connecting line to NGV Station, the Land Transport Association of Thailand (Nam Phong) from PTT Public Company Limited with the project's work value of Baht 58.14 million with 353 days construction period

**Sahakarn Wisavakorn:** The Kanlapaphruek Road Extension from Department of Highways (Ministry of Transport), Metropolitan Electricity Authority and Metropolitan Waterworks Authority with the project's work value of Baht 849.72 million with 900 days construction period

If including above 2 new projects worth Baht 907.86 million and the remaining value of construction of Turnkey Delivery of APOT Project Package 2, Surface Processing and Facilities, from APOT approximately of Baht 32,371.44 million to the backlog as at 31 December 2016, the value of uncompleted works of TRC group will significantly increase to Baht 36,958.89 million.

#### **Dividend Payment for the 2016 Operating Performance**

The 3/2017 Board of Directors' Meeting is scheduled to be on 8 March 2017 to consider the date, time, place and proposed agenda of the 2017 Annual General Meeting of Shareholders including the dividend payment for the 2016 operating performance.



(Mr. Pasit Leesakul)

Director and Chief Executive Officer

22 February 2017