

## MESSAGE FROM THE CHAIRMAN AND THE MANAGING DIRECTOR



### **2016 Overview**

In 2016 the global supply of FFB and CPO fell by more than 10% due to severe drought caused by the El Nino phenomenon in 2015. This in turn caused a dramatic increase in CPO price worldwide. Such higher price was benchmarked for Malaysia to raise its tax on CPO exports from zero to 6.00 – 6.50%, ending a duty-free policy held since May 2015.

In Thailand, the lower FFB output sustained the price of CPO, the major raw material of your Company, at the high level throughout the year. The average price of CPO in 2016 was 31.95 Baht/Kg. (2015 : 27.33 Baht/Kg.), enlarging the price difference as high as 9 Baht/Kg. when compared with CPO price in global market. Meanwhile, the maximum retail selling price of palm olein below 5 liters packing is set by the Internal Trade Department c/o the Ministry of Commerce at 42 Baht/Liter (VAT included). For this reason, your Company could not be able to adjust the selling price freely to align with the raw material cost. Although the refineries had proposed several times to the Internal Trade Department to exercise more flexibility in its price control mechanism, it has never been successful. Office of Central Commission on Prices of Goods and Services continued to issue the Notifications in approximately every 30 days to recommend the minimum purchase prices of Fresh Fruit Bunch (FFB) and Fresh Fruit Loose (FFL).

The Government preferred to manage CPO stock and CPO price in the Kingdom at optimal level. Accordingly, the Department of Energy Business c/o the Ministry of Energy announced 3 times to adjust the CPO blending into diesel. The first time mandates for biodiesel was lowered from B7 to B5, effective on July 25, to release more cooking palm oil for the food sector. Nonetheless, such reduction of blending mandate was not enough to stimulate significantly lower price of both FFB and CPO. In August therefore, the Ministry of Energy announced as the second time to further lower biodiesel blending mandate from B5 to B3, effective on August 25. These two reductions of CPO blending in biodiesel mandate had the effect of pushing down CPO price at late September to the range of 29-30 Baht/Kg. However, FFB output in November – December was forecast to increase progressively. In such a scenario, the Ministry of Energy announced as the third time to reinstate biodiesel mandate from B3 to B5, effective on November 25, pushing back CPO price to the range of 31 – 32 Baht/Kg. at the yearend (for more details please refer to the section "**Industry Overview and Competitiveness**").

With CPO cost being maintained at high level, your Company's operating result in 2016 was adversely affected because your Company was unable to effectively exercise inventory management, which is the crucial factor for the palm oil business.

### **Company's Performance**

In 2016, your Company recorded sales revenue at 6,153.5 million Baht, decreasing by 175.8 million Baht or 2.78% when compared with 2015 (2015 : 6,329.3 million Baht); gross profit at 486.5 million Baht decreasing by 168.7 million Baht (2015 : 655.3 million Baht). However, your Company received higher dividend from both subsidiaries in 2016. As a consequence, your Company recorded a net profit of 138.1 million Baht or a decrease of 32.45% (2015 : 204.4 million Baht).

United Palm Oil Industry Public Company Limited (UPOIC), a 69.96% subsidiary of the Company, recorded a net profit of 72.2 million Baht (2015 : 11.9 million Baht net loss) on revenue of 946.1 million Baht (2015 : 1,259.6 million Baht). FFB crops from its own plantations and concession lands fell by 21.6% from 2015.

The financial performance of Universal Food Public Company Limited (UFC), a 98.83% subsidiary of the Company, continued to improve. The sales revenue of 2,385.5 million Baht represents a 17.4% increase (2015 : 2,031.2 million Baht). The net profit from normal operation of 239.4 million Baht is 10.9% higher (2015 : 215.8 million Baht). This was driven by strong export sales growth of coconut water as well as new product development and marketing initiatives. However in 2016, UFC has taken up the investment impairment loss of 310 million Baht in the subsidiary company. Consequent to the downsizing of the business of the subsidiary, income was affected while ongoing interest charges needed to be paid continuously. To reduce the interest burden and losses, the subsidiary needed capital increase in order to pay the bank loans. Thus, UFC recorded net loss for 2016 at 70.6 million Baht.

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Overall, the consolidated net profit increased from 311.4 million Baht in 2015 to 330.6 million Baht, or an increase of 6.15%.

### **Production and Investment**

In 2016, your Company continues its mission by employing advance technology for oil packing lines automation. It completed the new refill packing line, bag in box packing line installation and ramp up to meet target efficiency.

### **Marketing**

Your Company has constantly strengthened the leadership in oil & fat segment by extending the innovative product line of Balancing Oil "Yok Extra" brand to provide the suitable fat proportion intake for human health recommended by World Health Organization (WHO). In line with proposition of "Naturel" healthy cooking oil encouraging consumers to live a healthy life, your Company launched Rice Bran Oil Gold under "Naturel Forte" brand with highest 12,500 ppm oryzanol.

Furthermore, new sizing of "Naturel" 100% Canola Oil & "Naturel" 100% Coconut Oil are now available at 7-eleven convenience stores. Margarine & Shortening under "Zest" brand has been developed to deliver premium quality for all bakery menus with Trans Fat free.

In 2016, marketing communication and campaigns have been continuously implemented to promote healthy life concept via all media channels; TV commercial, radio, online, event & road show. Various campaigns have been launched to create awareness of "Good for Health" brand image of the Company.

### **Responsibility to Community, Society and the Environment**

Your Company recognises the importance of community, social and environmental responsibility together with conducting the business. The major projects which have been always conducted on every year include:-

- Local activities to enhance your Company's image and develop relationship between its crushing mill and nearby communities
- Activities to promote and preserve the cultural heritage of Thailand
- Local youth sports day
- Donation for various occasions

### **Human Resources and Corporate Culture**

Employees have been recognised as an important asset to drive forward the Company. We commit to support and maintain working environment enhancing their efficient contributions. Your Company engages in teamwork building and continuous improvement to ensure high performance of human resources as it is believed that the continuous development would strengthen their capability and competence, following an increase in efficiency of the operation and serving customer satisfaction along with building awareness of all staff on the professional ethic.

Furthermore, your Company treats equally to all staff without discrimination, and provides appropriate return and welfare, as well as respects the human rights principles according to the international basic standard and law including other relevant rules and regulation. Your Company also values the importance of the wellness and safety of life and assets, as well as good working environment aiming to be the "Best Place to Work" with 3 pillars namely Happy, Healthy and Harmony.

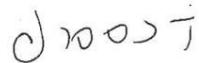
This is to create the Corporate Culture balancing in all aspects of efficiency, transparency, fairness and integrity which all staff is expected to strictly adhere with aim to achieve the goal of the organisation and individual level.

All mentioned above is for all employees as a major part to achieve the ultimate goal in accordance with vision and mission of the Company.

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We wish to express my sincere thanks and appreciation to the Board of Directors, our Management team, employees, customers, and all stakeholders for rendering their full-fledged support to the Company for all these years. You all are a crucial part of Lam Soon today's eminent standing in the palm oil business in the Kingdom. We look forward to your continued support as the Company seeks to grow further in Thailand.



Art-ong Jumsai Na Ayudhya, Ph.D.  
The Chairman

Ms. Anchalee Suebchantasiri  
Managing Director