

### 3. Risk Factors

#### Risk from business operation of the Company

Business of the Company and its subsidiaries are as follows:

1. Raw sugar and brown sugar manufacturing and distribution operated by Buriram Sugar Factory Co., Ltd. (“BSF”).
2. By-product business as follows:
  - Biomass-fired power plants operated by Buriram Energy Co., Ltd. (“BEC”), Buriram Power Co., Ltd. (“BPC”) and Buriram Power Plus Co., Ltd. (“BPP”).
  - Organic fertilizer manufacturing and distribution business operated by Key Brand Fertilizer Co., Ltd. (“KBF”).
3. Supporting business operated by Buriram Sugarcane Research and Development Co., Ltd. (“BRD”).

#### **Risk from Business Operation of Buriram Sugar Factory Company Limited (“BSF”)**

##### **1.1 Risk Factors from Raw Material Sourcing**

BSF produces and distributes raw sugar and brown sugar by using sugarcanes as main raw material. However, BSF does not own sugarcane farm sufficiently for production capacity, thus to allocate sufficient sugarcanes for crushing is the most important factor affecting the operations and the performance of the company. The quantity of sugarcane available each season is depended on these main factors:

(a) The risk from changes of the amount of planting areas which may cause by the decrease of the sugarcane price affecting to the farmers to grow other agricultural plants that gain the higher price instead or the government supporting policy to appropriately allocate the planting zone, also known as zoning. Nevertheless, Buriram province is one of the pioneer areas to switch from rice to sugarcane plantation according to the policies issued by the Ministry of Agriculture and Cooperatives. Additionally, the company has conducted the surveys for evaluating the changed factors and also solved those problems since 2012 until 2017. Hence, the amount of the sugarcane plantation has gradually increased as follows:

	2012/13		2013/14		2014/15		2015/16		2016/17	
	Sugarcane Plantation (Rai)	Average Production (Ton/Rai)								
Buriram Province	188,946	11.09	200,112	11.29	200,941	11.09	210,919	11.00	208,924	9.52
All areas in Thailand	9,487,320	11.32	10,078,025	11.24	10,530,927	11.08	11,012,839	9.15	10,988,489	9.43

Source: Office of the Cane and Sugar Board

(b) The risks from climate change, rainfall, irrigation, soil fertility, sugarcane varieties and other sugarcane diseases affect the crop yield of sugarcane per Rai. The changes of each factor can cause agricultural output diminution. According to the climate change and rainfall, the company has supported the watering system during the drought through drip irrigation system in the sugarcane farms by cooperating with the Office of the Cane and Sugar Fund (OCSF) to provide a long-term loan with 2% interest rate per annum for sugarcane farmers to install such drip irrigation system.

(c) The risk from soil fertility. The company has the policies which focus on soil improvement to recover the soil fertility in sugarcane plantation areas, for example, harvesting freshly sugarcanes, preserving organic matter, adjusting pH for fertilizer efficiency and using filter cake-based fertilizer which is a byproduct of the company's sugar production. Since the policy implementation, the agricultural output of sugarcanes has been increased gradually from 8-9 tons/Rai during 2004-2010, and 12-13 tons/Rai during 2011-2017.

(d) The risk from sugarcane varieties. The company has selected and procured sugarcane varieties which are appropriate for the plantation areas and also provide the sugarcane varieties testing area for the selection of a new sugarcane variety in order to replace deteriorated ones, including the arrangement of the sugarcane varieties for planting, and use of qualified sugarcane varieties to provide higher crop yield for higher returns for the farmers, as well as higher sugar production per ton.

(e) The risk from the purchasing competition of local sugarcanes. If other sugar factories in local areas offer higher price of sugarcanes than BSF's, sugarcane farmers may trade their sugarcanes to those factories instead; therefore, the amount of sugarcane crushing will be decreased respectively. As the result, BRD provides the solution for this matter through conducting the contract farming between the company and sugarcane farmers by providing fund, fertilizer, chemical, sugarcane variety, or other agricultural machines and equipment in the plantation of 40 kilometers around the factory in order to legally transfer the rights of such products to the company in advance before cane crushing season.

Additionally, BRD aims to keep good relationship with sugarcane farmers through using the support strategies by providing 17 teams of agriculture specialists to give advices to sugarcane farmers in individual planting area such as recommending suitable sugarcane variety for each plantation, managing and examining soil and water conditions and supporting all facilities in the crop period from material preparation to harvesting and selling to BSF by using online and GPS system to ensure that every sugarcane plot is monitored and supported appropriately so that sugarcane farmers can operate the quality production and gain more crop yield per Rai which means that sugarcane farmers will gain more revenue and stable household economic status. Consequently, BSF has not encountered the sugarcane insufficiency for the sugarcane crushing season.

Besides, the company has allocated the sugarcane plantation or zoning among sugar factories in Buriram province, Surin province and Nakhonratchasima province in order to prevent the purchasing competition of sugarcanes.

BRD has the additional risk management plan to earn more sugarcane output and efficiency from the sugarcane farmers by mean of supporting sugarcane farmers in each plantation area with the focus on the precision agriculture policy consisting of 3 elements: information technology, know-how technology and management. Such policy is based on the concept that agricultural plants and environmental factors such as soil, water, sunlight, and wind in a planting area affect the agricultural output differently in line with each environmental condition. Thus, agricultural plants in the same area are monitored in a different manner by taking the most efficient output into account. Regarding the sugarcane cropping season in 2018/2019, BRD has determined the agricultural promotion policy by sub-dividing into 4 phases as follow:

- |         |   |
|---------|---|
| Phase 1 | Germination Phase in 0 – 40 days                |
| Phase 2 | Tillering Phase in 40 – 120 days                |
| Phase 3 | Grand Growth Phase in 120 – 270 days            |
| Phase 4 | Maturation and Ripening Phase in 270 – 360 days |

BRD's goal is to implement every sugarcane farm adhered to the precision agriculture in order to ensure the higher efficient output and the consequent benefits received: lower cost, more output, acceptable quality, achieving the maximum benefits from using resources, and environmental conservation.

## 1.2 Risk from Fluctuation in Global Sugar Market Prices

Regarding to sugar trading in global market, sugar is one of the agricultural products which have the highly price fluctuation compared to other agricultural products. The fluctuation in global sugar market price depends on demand and supply of manufacturing and consuming countries, the export and import volume in each country, the arbitrage by arbitrageurs in commodity market and the proper climate for planting in each countries issuing the promotion policies, trade invention policies, export and import policies of sugar industry group by the government sectors especially for developed countries. Furthermore, sugar price currently corresponds to fuel price since cane juice and molasses can be used to produce ethanol which can be mixed with gasoline for automobile fuel. The factors as mentioned above affect the fluctuation in global sugar market prices.

According to the Sugarcane and Sugar Act, B.E. 2527, Thai sugar factories can export sugar through agencies as indicated only, depending on the quotas allocated for export and domestic sale which refer to the amount of sugar produced in each crop year, therefore, the ratio of export and domestic sale of Thai sugar factories is quite similar. In 2015-2016, the export revenue of the company is equivalent to 80% and 78% of the total revenue respectively. The export price is primarily based on the global sugar market price which has been changed pursuant to global demand and supply. Hence, the revenue of the company shall be affected according to the global market change. In 2017, the price of New York sugar No.11 was averaged at 15.87 cent per pound.

### Average Price of New York Sugar No.11

Fiscal year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Price (Cent/Pound)	9.9	12.1	17.98	22.28	27.07	21.57	17.47	16.34	13.12	16.49	15.87

### Average Price of London Sugar No.5

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Price (US\$/Ton)	309.55	351.59	487.39	616.49	706.07	587.74	496.58	439.30	376.32	458.32	435.86

Source: Bloomberg

Nevertheless, the main cost of sugar production is sugarcane price which is changed according to the revenue of the company (70:30 Profit Sharing System set up by Thai government and regulated by the Office of the Cane and Sugar Board). Therefore, in the event that global sugar market prices decrease, the sugarcane cost will be decreased in the ratio as of 70% pursuant to the Profit Sharing System which can minimize the effects of sugar price fluctuation.

Previously, the operating results of the company depend on the of sugar and molasses business only which means that the fluctuation of global sugar market price has the influence on the operating results of the company definitely. However, the company and its subsidiaries aim to invest in many projects related to the sugar and molasses business such as the biomass power plant by using bagasse as the main fuel, the factory producing and distributing organic fertilizer. Thus, the company expects that the operating results with reference to the global sugar market price will be decreased.

### **1.3 Risk from Non-Performing Loans on Sugarcane Advance Payment Loans**

BRD/BSF support the sugarcane farmers by providing the sugarcane advance payment loans in individual planting areas according to each step of crop-growth period by using the database and GPS (Global Position System) to survey the plantation in order to assure that each area is exactly supported and monitored appropriately in order to receive such support in line with the actual results.

The support from sugarcane advance payment loans is proceeded by transferring to sugarcane farmers' bank accounts so that the sugarcane farmers shall spend the investment in term of sugarcane variety, land, watering system, fertilizer and so on. This kind of advance payment loan is similar to the reservation of sugarcane in advance which is that the sugarcane farmers who are provided the advance payment loans have to sell sugarcanes only to the factory after harvesting, in the period of sugarcane crushing season. Those sugarcane farmers shall harvest and send to the factory accordingly, after that the factory will pay the returns to the sugarcane farmers by deducting from the sugarcane advance payment loan. As the result, the company has the risk on doubtful accounts from non-performing loan in the event that the sugarcane farmers cannot provide the crops as engaged which may be caused by the drought or plant diseases and so on. Therefore, if the expense from the doubtful accounts increases, the operating results of BSF shall be affected directly. In 2013 to 2017, the company had projected the allowance for such doubtful accounts as follows:

(Unit: Million Baht)

Item	2013	2014	2015	2016	2017
Allowance for Doubtful Accounts	20.33	1.05	3.44	0.74	10.28
Sugarcane Farmers Account Receivable	1,135.29	880.68	989.21	1,069.92	1,106.95
Percentage of Doubtful Accounts	1.79	0.11	0.34	0.07	0.92

The ratio of allowance for doubtful accounts during 2013 to 2017 was approximately 0.62% of sugarcane farmers account receivable at the end of the accounting period. The company has emphasized this advance payment loans and managed its risk through specifying the qualification of sugarcane farmers and classifying them according to their performance so that the loan payment shall be offered and paid into performance terms. In addition, the securities or guarantor specification are also taken into account as well. Besides, the company has also provided the agricultural specialist teams to look after the planting process and used GPS system to survey the planting areas in order to precisely collect the data in real time and solve the problems timely.

#### 1.4 Foreign Exchange Risk

The company has recognized the export revenue in term of US Dollars (USD), approximately equivalent to 77% of the total sugar selling revenue; therefore, the revenue of the company shall be fluctuated according to the exchange rate of USD/THB (Thai Baht).

However, the company has a preventive measure by hedging the foreign exchange risk with forward contracts. The exchange currency rate in the forward contracts shall be higher than the rate specified by Thai Cane and Sugar Company Limited (TCSC) in calculation of quota B sugar. In this regard, such matter depends on the consideration of the executives about the trend of exchange rate at that time. Nevertheless, the exchange rate hedging will not be effective in the event that THB appreciation still remains for a long period.

#### 1.5 Risk from Governmental Control

##### 1.5.1 Risk from Government Policy

The sugarcane and sugar industry in Thailand is regulated and controlled by the Office of the Cane and Sugar Board under the Cane and Sugar Act B.E.2527 which is the law concerning to the governance of sugarcane and sugar industries such as, sugarcane farming management , production in

factory, sugar export, allocation of sugar quota (classified into 3 types which are Quota A for domestic sales, Quota B and Quota C for export), retail price for domestic sales, and the 70:30 Profit Sharing System between sugarcane farmers and sugar mills.

The 70:30 Profit Sharing System is calculated from the price of Quota B distributed by Thai Cane and Sugar Company Limited (TCSC) as the standard price in order to calculate the total export revenue of country and add it with the total revenue from domestic sale including molasses; therefore, it will be total revenue of sugar industry. Then, the production and distribution cost will be deducted to forecast the profit. The profit shall be allocated to the ratio of 70:30. 70% will be divided by the total amount of sugarcane in that crop year for determining the sugarcane price which the factory will purchase. Therefore, the 70:30 Profit Sharing System shall generate the stability of the sugar industries which can minimize the risk from the fluctuation of raw material price and sugar price to all sugar manufacturers in the country due to the sugarcane price in accordance with the sugar price sold.

In addition, the Minister of Industry, Minister of Agriculture and Cooperatives and Minister of Commerce are responsible for such control and regulations according to the laws. Therefore, the price adjustment in the domestic sale, or the regulation adjustment, or the amendment of such Act shall significantly affect the company's operating results as well as other companies operating sugar industries.

Regarding the possibility to loosen the restriction in the sugarcane and sugar industry in order to create free trade in accordance with the agreement on other countries; for example, ASEAN Free Trade Area (AFTA) , Bilateral Free Trade Agreement, Regional Comprehensive Economic Partnership (RCEP), as well as multilateral framework such as World Trade Organization (WTO). Trade liberalization is the opportunity and challenge for the sugarcane and sugar industry which should pay attention to closely.

Nevertheless, the sugarcane and sugar industry is the agricultural industry, as well as a primary industry of food and beverage, and also the export industrial crop. The regulations and policies issued by the government in the past aim to develop the industry in the country including the farmers' lives as well as sugar factory economic status; therefore, this can be convinced that the regulations which may be changed are likely the positive supporting policies on industry, sugarcane farmers and sugar factories.

The significant change has the impact on the upcoming reformed sugar regime for the sugarcane and sugar industry is that Brazil, the largest sugar producer and distributor in the world, launched a complaint against Thailand at the World Trade Organization (WTO) for its supportive policies for the

sugar export that has dragged down sugar global prices. In this regard, the Thai Cabinet had a resolution on October 11, 2013 to reform the overall structural system of the sugarcane and sugar industry as suggested by the Ministry of Industry and in compliance with the obligations and agreements under WTO by determining plan, goal, operational action, and proceeding period, which consists of 5 plans as follow:

1. The Cane and Sugar Act, including other legal requirements and related regulations are reformed to cover the sugarcane ethanol production and other byproduct for the purpose of value addition to sugarcanes and sugar, and in compliance with the agreements of WTO, AFTA, and international sugar regime.

2. The sugarcane and sugar productivity are increased to achieve the incremental efficiency for sugarcane and sugar production, and other continuing downstream production.

3. The sugar standard and the standard cost in producing sugarcane and sugar are determined to aim to set the standard for sugar production of the sugar factories which is effective in the crop year 2016/17, and aim to specify the cost standard calculation for sugarcanes and sugar as appropriate in each area based on the acceptable and fair practices toward the sugarcane and sugar industrial system, as well as specify the standard cost for ethanol and other sugarcane products.

4. The Cane and Sugar Fund is to be stabilized in order to enable the fund to manage assets or funds, solve a problem, and beneficial to the development of sugarcane and sugar industry, including maintaining the stability of sugarcane and sugar.

5. The continuity of establishing sugarcane and sugar research and development and the continuous downstream industries to enhance the long-term potential and competency as a competitive advantage.

Regarding to the recently status on December 4, 2017, the Thai Cabinet had a resolution to specify the management principles for the sugarcane and sugar industry, as well as to prepare 1 draft announcement of the Office of the Cane and Sugar Board, and 3 draft regulations of the Office of the Cane and Sugar Board, totaling 4 letters as proposed by the Ministry of Industry as follow:

1. The announcement of the Office of the Cane and Sugar Board upon criteria, and preparation of revenue projection, specification and payment of sugarcane price and sugar production cost, and profit sharing system between sugarcane farmers and sugar mills.

2. The regulations of the Office of the Cane and Sugar Board upon production, containing, storage, warehouse, observation, transportation, delivering, and selling sugar.

3. The regulations of the Office of the Cane and Sugar Board upon criteria, measure, and condition relating to sugar export permission.

4. The regulations of the Office of the Cane and Sugar Board upon criteria, measure, and condition relating to manage the revenue from sugar sales in Thailand to be allocated to the Cane and Sugar Fund.

Thus, the significant change is the cancellation of specification on domestic sugar price, and the cancellation of sugar quota system to be in compliance with the trade obligation and agreement. However, after the Thai Cabinet's resolution on December 4, 2017, the relevant parties of the sugarcane and sugar industry, continuing downstream production using sugar as a raw material, consumers, and sugar traders both domestic and abroad are waiting for a clear legal requirement in the Royal Thai Government Gazette which is counted as the effective date of Thai sugarcane and sugar reformation.

### **1.5.2 Risk from the Fluctuating Income from Sugar Sales**

According to the cane crushing in the period of November to April, the company gradually sells sugar since December until January to the end of cane crushing season. However, the company will sell sugar based on Quota A for domestic sales within 52 weeks. Moreover, Quota C for export will be distributed according to the existing amount of sugar, crop yield, global sugar market price and the selling price of Quota B sugar set by Thai Cane and Sugar Company Limited in order to standardize the selling price of Quota C sugar.

Nevertheless, the amount of sugar sale in each quarter year over year is different: therefore, the income from sugar sales in each quarter shall be fluctuated according to these factors as mentioned. Previously, there were 3 announcements issued by 3 associations of sugar producers in relation to the domestic sugar management: cancellation of quota, domestic sugar price fluctuation in compliance with the world trade obligations or WTO (World Trade Organization), and in line with the principles as Thai government consulted to resolve the trade dispute with Brazil filing a complaint about Thai sugar system. Thus, other regulations have not been issued clearly yet.

Regarding to this issue for the next year (2018), the company has a preventive measure for the risk on domestic sales in order to response the sugar reformation, and closely follow up the announcement, regulations issued by the government. In this year, the company expanded the market share to the modern trade. However, the company has the proportion of domestic sugar sales at 30%.

## 1.6 Risk from the Cost of Raw Materials

The price of sugarcane is formulated in the profit allocation of 70:30 Profit Sharing System. The sugarcane farmers gain 70% of profits from sugar sales. The calculated sugar price on the sugarcane price that has to pay to sugarcane farmers is from average selling price formulated by Thai Cane and Sugar Company Limited, therefore, if Thai Cane and Sugar Company Limited sell the sugar in higher price, the cost of raw materials will be increased respectively, whereas, if Thai Cane and Sugar Company Limited sell the sugar in lower price, the cost of raw materials will be decreased respectively. The fluctuation of raw materials cost will affect to the profit margin of the company as well.

Consequently, in order to minimize this risk, the company has to sell sugar in higher price than the average price formulated by Thai Cane and Sugar Company Limited to prevent losses from the increasing price of raw materials. As the results, the company has followed up the status of sugar sales from Thai Cane and Sugar Company Limited closely for determining the appropriate price of sugar in comparison with the average price of Thai Cane and Sugar Company Limited.

### **Risk from Business Operations of Byproducts**

#### **Biomass Power Plant Business operated by Buriram Energy Company Limited (BEC), Buriram Power Company Limited (BPC), and Buriram Power Plus Company Limited (BPP)**

##### **1.1 Risk from Insufficiency of Fuel Material for Electricity Generation**

Currently, Buriram Sugar Factory Company Limited or BSF provides the bagasse which is the byproduct of sugar manufacturing to BEC, BPC and BPP as a biofuel material for electricity generation. Therefore, if the amount of sugarcanes in the crop year is small, it will affect to the insufficiency of bagasse for electricity generation and the break-off of the generator accordingly. The amount of bagasse from the sugar production of the company is approximately 28% of total weight of sugarcane crushed. In the crop year of 2017/2018, the amount of bagasse after sugarcanes crushed was approximately 810,000 tons in which the sugar factory uses as a fuel in the amount of 344,000 tons for heat generation in sugar production process, whereas, the capacity of 3 power plants is 9.9 MW., which requires the fuel material in approximate amount of 600 – 900 tons per day. However, the company plans to supply the additional sugarcane leaves from sugarcane farmers in approximate amount of 20,000 tons which is sufficient to generate electricity. On the other hand, if the amount of cane crushing is less than 2,800,000 tons, the amount of bagasse will not sufficient for full capacity of electricity generation.

However, the company's machines can use other fuel materials, such as woodchip and rice husks to generate electricity. In the crop year of 2017/2018, the company purchased the additional sugarcane leaves from sugarcane farmers totaling more than 20,000 households to use sugarcane leaves as a fuel. The advantage from using sugarcane leaves as a fuel material is that the moisture level of sugarcane leaves is quite lower than bagasse which can be satisfactory used for electricity generation; therefore, the risk from insufficiency of fuel material for electricity generation can be controlled properly. Nonetheless, the using of other raw materials will increase the cost of electricity generation which definitely affects to the net profits accordingly.

## **1.2 Environmental Risks**

The operation of power plant is under the Acts and regulations concerning to the environmental protection and management which is included the pollution control such as soil, water, and air. Thorough the period of business operation, the company has followed these measures to protect and prevent any kinds of environmental impacts, for example, the water drainage system, the control system of substances, wastewater management system and waste elimination system. The company also provides green space or open space reserve within the area of power plant location, totaling 25 Rai, as well as the following and verifying the operation in term of environmental impacts closely in order to regulate the electricity generation process pursuant to laws and regulations, and reduce environmental pollution such as a dust suppression by using scrubbing steam to change dust into soil by the wet scrubber system.

In July 2012, BEC was awarded the Green Industry Level 2 (Green Activity) and promoted to level 3 (Green Activity) in July 2016 for the enhancement of environmental conservation, and also certified by ISO14001:2004 in March 2016.

Furthermore, BPC was promoted from Green Industry Level 1 (Green Commitment) in 2015 to Level 2 (Green Activity) in April 2016 from the Green Industry Certificate. Such certificate can be explained that the company has emphasized the environmental management systematically, assesses and review the practices continuously, organized by the Provincial Industry Office and Provincial Industrial Estate Authority

In addition, the company has carried on the development and put the importance on the environment on the regular basis. In 2017, the company received 2 awards; that is, the alternative energy of the cogeneration project in the event of Thailand Energy Awards 2017 by the Minister of the Ministry

of Energy, and the winner cogeneration category in the event of 35<sup>th</sup> ASEAN Ministers on Energy Meeting at Pasay, Philippines.

## **Manufacturer and Distributor of Fertilizer operated by Key Brand Fertilizer Company Limited (KBF)**

### **1.1 The Risk from Existing Consumption Behaviors**

Key Brand Fertilizer Company Limited or KBF was initiated the business of organic fertilizer manufacturer in order to provide the soil improvement and nutrition since December 2012. The target customers are mostly the sugarcane farmers. During the 3-4 years ago, the sugarcane farmers have more understanding and knowledge about the soil improvement by organic substance and soil pH adjustment by Dolomite which increase the efficiency of chemical fertilizer and highly improve the physical and chemical property of soil. However, the sugarcane farmers have found the problem from the using of powdered organic fertilizer in the planting area after the company conducted public relations on using organic fertilizer to enrich the organic materials. Therefore, Key Brand Fertilizer Company Limited has cooperated with Buriram Research and Development Company Limited to solve this problem by changing the method to apply the powdered organic fertilizer in the planting area. During 2 years ago, the machines had been improved, and Big Bag packages had been designed. After that, the raising sugarcane trucks lift the Big Bag packages and put into the fertilizer application machine. In the present, such machines has been more improved and equipped with the hydraulic system for excavating powdered organic fertilizers piled up along the sugarcane farms and putting such fertilizers in the planting area directly. Consequently, the sugarcane farmers do not need to wait for the queue of the raising sugarcane trucks lifting the powdered organic fertilizers to be contained in the Big Bag packages and putting into the fertilizer application machine. This helps reduce the steps of plant preparation process before the rainy season, and increase the consumption of the powdered organic fertilizers at large.

However, the company also conveys the knowledge of organic fertilizer and organizes a plant visit on the demonstration farm applying the organic fertilizers, including the academic information support which influences the change of sugarcane farmers consuming behaviors to increasingly apply the powdered fertilizer.

## 1.2 Environmental Risks

The business operation of fertilizer manufacturer and distributor for soil improvement is under laws and Acts B.E. 2518 amended by No.2 B.E. 2550 concerning to the quality control to sustain the benefits for farmers and agricultural industry which included the pollution control such as soil, water, air and toxins, waste management, health and safety in workplace and dangerous material management. These regulations are complicated, and have been changing continuously; in addition, the law enforcement sometimes depends on the individual interpretation by relevant departments.

In the past, KBF received the factory establishment license and the fertilizer manufacturing license pursuant to the laws and relevant regulations. Additionally, KBF also set the measures of environmental protection and prevention for employees and surrounding areas such as the utilization of microbe to accelerate biodegradation and elimination of waste disposal smell, the utilization of dust collector chamber, wet scrubber system, water cannon vehicle, and providing safety equipment for employees in order to reduce the machines' acoustic impact.

The CSR activities were organized in order to sustainably develop the community. The manufacturing plant of KBF is located far away from the community areas; therefore, it can be assured that the environmental risk is leveled low.

### Other Risks

#### 1.1 The Risk from High Debt to Equity Ratio (D/E Ratio)

According to the financial statements year ended on December 31, 2017 and December 31, 2016, the D/E ratio of the company is equivalent to 2.73% and 2.45% respectively. However, the company is a holding company; therefore, the bank loan agreement with the financial institutions, the agreement of Buriram Sugar Group Power Plant Infrastructure Fund, and the business operations of its subsidiaries such as BSF, and so on in which each subsidiary calculated and maintained D/E ratio separately, not calculating the entire business group. On December 31, 2017, D/E ratio of BSF was in compliance with commercial bank loan contracts.

Such D/E ratio is separately calculated as follows:

Case 1 Debt to Equity: D/E ratio equivalent to 2.73 times

Case 2 Interest Bearing Debt to Equity: IBD/E ratio equivalent to 2.41 times

Case 3 Debt to Equity: D/E ratio excluding Infrastructure Fund equivalent to 1.38 times

Case 4 Interest Bearing Debt to Equity: IBD/E Ratio excluding Infrastructure Fund equivalent to 1.05 times

In addition, the company launched the investment unit “Buriram Sugar Group Power Plant Infrastructure Fund (BRRGIF)” to the financial institution and people in the Stock Exchange of Thailand. However, there is no accounting standard for recording the infrastructure fund, but to be accounted as a liability. Consequently, the D/E ratio of the company was increased.

In order to mitigate the risk on the loan from the commercial banks, the company has dealt the agreement on the D/E ratio and related agreement with the company and its subsidiaries without any obligations to maintain other financial ratio other than the D/E ratio.

## **1.2 The Risk from the Influences of Major Shareholders on Policy Formulation and Administration**

The family of Tangtrongwechakit and Buriram Capital Company Limited, in which the major shareholders is the family of Tangtrongwechakit, holding shares by 74.32% of the registered capital which was issued and paid-up after offering the ordinary shares. In addition, the family of Tangtrongwechakit has taken positions of the executives and authorized directors. The company and/or the minor shareholders may have the risk from the influence of major shareholders on policy formulation and administration somehow, and the policy and management control, as well as voting control in the shareholders’ meeting which requires the majority votes, except for any agenda which required 3/4 of the total votes at the shareholders’ meeting. Therefore, other shareholders may not control the votes to balance the power of major shareholders. However, the company has determined the good corporate governance principles for the Board of Directors and executives to be comply with relating to the right of shareholders and information disclosure and transparency, etc.

Regarding to the transparency, accountability and the power balance of the executives and directors, the company currently set up the Internal Audit Unit to be subject to the Audit Committee, and auditing outsources to audit and balance the power of consideration and approval of any agenda items before proposing at the shareholder’s meeting in order to prevent the conflict of interest, and to enhance the transparency of business operations. Additionally, the Risk Management Unit was appointed under the supervision of the Risk Management Committee to manage all of the risks in the organization by setting up the risk management plan as needed. In the previous year, the company appointed the Nomination and Compensation Committee, and Corporate Governance Committee to ensure the transparency, clarity, and maintaining the best interest of all stakeholders.