TRIS RATING

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Thai Union Frozen Products Public Company Limited

Company Rating:	A+
Issue Rating:	
TUF116A: Bt3,200 million senior debentures due 2011	A+
Rating Outlook:	Stable

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
17 May 2007	A+	-	A+
30 Aug 2006	A+	-	-

Rating Rationale

TRIS Rating affirms the company and issue ratings of Thai Union Frozen Products PLC (TUF) at "A+". The ratings reflect the company's strong market position as one of the world's leading tuna processors, its solid valuable "Chicken of the Sea" canned tuna brand, and the management team's proven track record in the seafood export business. The ratings also take into consideration the company's conservative business expansion policy, as well as its product and geographic diversity. These factors are partially offset by the maturity of the canned tuna industry in the US, high exposure to tuna price fluctuations, and threats from manufacturers in low-cost countries, as well as the implementation of import trade barriers by major trading countries, and the fluctuation of the Thai baht.

TUF is Thailand's leading processor and exporter of canned and frozen seafood products with 2006 total sales of Bt55,039 million. The company's diversified product portfolio includes canned tuna, frozen shrimp, and other seafood products, as well as pet food and shrimp feed. In 2006, canned tuna remained the largest revenue contributor, about 47% of total sales, followed by frozen shrimp at 20%, canned pet food at 9%, and canned seafood and shrimp feed at 7% each. The company primarily exports to the US (57%), Japan (10%), and the EU (10%). Its management has more than a decade of experience in the seafood processing industry. The company has a solid position in canned tuna, "Chicken of the Sea", as the third-largest brand of canned tuna in the US. The full acquisition of the brand in 2001 enhanced TUF's business profile and almost doubled its revenue base. The brand strength also enables the company to capitalize on and introduce premium, value-added seafood products. In 2006, TUF's canned tuna production capacity was 280,000 tonnes per annum, making it one of the top tuna processors in the world. The company achieves economies of scale in raw material procurement and production. Its supply chain value has been strengthened through the integration of packaging and distribution networks. Although the company's historical performance has been quite stable, various uncontrollable factors, including foreign exchange rates, climate change, and trade policies implemented by foreign governments, stand as threats to its operating performance.

TUF's financial profile remains conservative and strong. Operating margins and cash flow generation are relatively stable, despite commodity price volatility, thanks to its strong diversity, brand equity, and effective cost saving initiatives. During the last three years, TUF's ratio of funds from operations to total debt was in the 32%-35% range, while earnings before interest, tax, depreciation, and amortization (EBITDA) to interest was between 6-14 times, and operating margin was about 6%. Leverage is expected to rise due to the recent Bt1.4-billion acquisition of the tuna-fishing fleet. The appreciation of the baht against the US dollar, rising energy costs, as well as record-high tuna prices have pressured the company's profitability in the first half of 2007. TRIS Rating expects that TUF's financial performance will continue to be under pressure over the intermediate term.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that TUF will continue to maintain its competitive strength through economies of scale and production efficiency, expand business operations in a conservative manner, and reduce its financial leverage in the intermediate term.

Key Rating Considerations

Strengths/Opportunities

- Strong competitive position as one of the world's largest canned tuna processors
- Value of solid "Chicken of the Sea" brand
- Geographic and product diversification
- Vertical integration
- Capable management team
- Conservative financial policy

Weaknesses/Threats

- Mature growth in the US canned tuna market
- Exposure to commodity products
- Tuna price fluctuations
- Competition from lower-cost countries
- Tariff and non-tariff trade barriers
- Strengthening of the Thai baht

Corporate Overview

TUF Group is one of the world's largest canned tuna processors. TUF manufactures and exports canned and frozen seafood. Its local subsidiaries are engaged in the pet food, packaging, and printing businesses. Overseas subsidiaries manufacture and distribute canned seafood, and import shrimp and frozen seafood products for sale to restaurant chains, food processors, wholesalers, and retailers.

TUF was incorporated in 1988 by the Chansiri family with registered capital of Bt25 million and was listed on the Stock Exchange of Thailand in 1994. Over the years, the company has enlarged its product portfolio from canned tuna to include a wide variety of seafood and seafood-related products. Distribution channels have also expanded into several countries. In 1997, TUF set up a 50:50 joint venture to acquire Van Camp's assets, which included the "Chicken of the Sea" canned tuna brand, and subsequently purchased the remaining stake in the joint venture in 2001. In 2003, TUF acquired Empress International Ltd. (Empress), a US-based importer specializing in frozen shrimp to establish a US distribution arm for its frozen shrimp products. In 2006, TUF partnered with High Health Aquaculture, Inc. to build a shrimp breeding and hatchery farming in Phang-Nga, and set up Tri-Union Frozen Food, LLC (COSF) in the US as its retail distributor. TUF also acquired PT Juifa International Foods Co., Ltd. in Indonesia to expand canned tuna production, particularly albacore tuna. As of June 2007, TUF's paid-up capital was Bt874 million, with about 26% held by the Chansiri family.

TUF's business operations are divided into five areas: frozen and canned food products, packaging products, animal feed and agricultural products, food products for the domestic market, and overseas investments.

Frozen and canned food products include frozen tuna loins, canned tuna, canned pet food, frozen shrimp, frozen cephalopods, and canned seafood.

Packaging products include metal and aluminum cans for food, and printing services.

Animal feed and agricultural products include shrimp feed and shrimp breeding stock.

Food products for the domestic market include snacks under the "Fisho" "Dori" and "Tri-O Light" brands, and canned tuna under the "Sealect" brand.

Overseas investments include canned tuna and other seafood products in the US under the "Chicken of the Sea" and "Xcellent" brands, as well as an investment in a seafood distributor in China.

Table 1: TUF's Sales Breakdown by Product

Unit: %

	2003	2004	2005	2006	1H07
Canned tuna	51	46	50	47	50
Frozen shrimp	16	21	19	20	19
Canned seafood	9	9	8	7	8
Canned pet food	8	8	7	9	8
Shrimp feed	5	4	6	7	6
Domestic products	3	4	4	5	4
Frozen tuna loin	5	5	3	3	3
Frozen cephalopod	3	3	3	3	3

Source: TUF

TUF derives a majority of revenue from canned tuna and frozen shrimp, with "Chicken of the Sea" the company's flagship brand. During the last three years, canned tuna accounted for about 50% of total sales with frozen shrimp accounted for another 20%. TUF's customer base has been geographically diverse over the last three years, with about 58% of sales from the US, 9% from the EU, 11% from Japan, 9% from the domestic market, and the remaining from Australia, Asia ex-Japan, the Middle East, Canada, Africa, and South America. For the first-half of 2007, about 43% of TUF's production was contract manufacturing, while around 48% was for its own US brands. The remaining 9% of production was for the company's own Thai brands.

Table 2: TUF's Sales Breakdown by Location

Unit: %

	2003	2004	2005	2006	1H07
USA	58	59	58	57	55
EU	8	7	9	10	13
Japan	14	13	11	10	8
Thailand	7	8	9	10	10
Others	13	12	14	14	15
Total	100	100	100	100	100

Source: TUF

As of June 2007, TUF's annual production capacities for canned tuna, canned pet food, frozen tuna loins, frozen shrimp, and frozen cephalopod were 280,000, 75,000, 34,000, 18,000 and 7,000 tonnes, respectively.

Over the last three years, TUF's market shares of its canned tuna, frozen tuna loin, and canned pet food among Thai exporters are about 40% each. Meanwhile, the market shares of its frozen shrimp, frozen cephalopods, and canned seafood among Thai exporters are about 10% each.

Recent Development

- ***New investment in tuna-catching vessels***

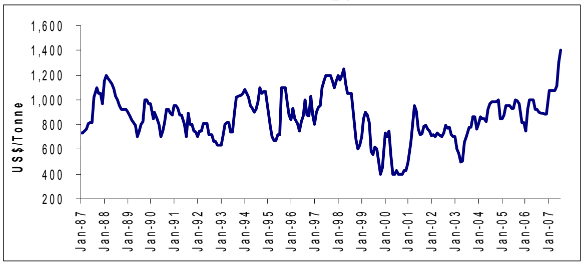
In August 2007, TUF acquired five deep-sea ships for Bt1.4 billion. Four of the ships are purse seiners, while the other is a fish-searching vessel. The new vessels are expected to supply 25,000 tonnes of tuna per annum, or 8% of the TUF's annual tuna raw material requirement. The vessels operate primarily in the Indian Ocean. The investment is aimed to increase flexibility in raw material procurement and to let TUF enjoy lower import tariffs under the rule of origin requirements in various preferential trade agreements.

INDUSTRY ANALYSIS

Canned Tuna:

During the first seven months of 2007, a shortage of global tuna has driven the price of raw tuna to record highs. As of July 2007, Thai skipjack tuna was priced at $1,400 per tonne, up 53% from an average price of $914 per tonne in 2006. The dramatic rise in raw material prices puts significant pressure on canned tuna processors, as higher tuna prices can not be totally passed on to consumers, particularly in highly mature markets. Such pressure is rather pronounced for Thai canned tuna producers, as their major export market is the US, where canned tuna consumption per head has been declining over the past three years due to the change in consumer diets to other seafood products.

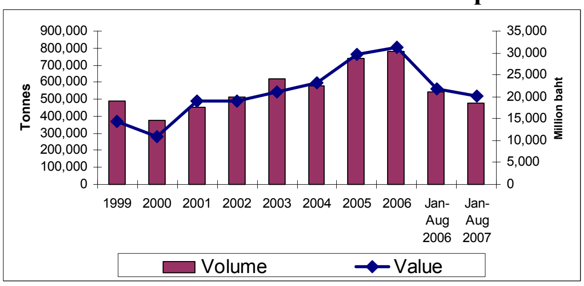
Chart 1: Thailand's Skipjack Tuna Price



Source: GLOBEFISH

Thailand, given its competitive advantage of low-cost labor, is the world's largest producer of canned tuna, followed by the US and Spain. Since the 1980s, canned tuna has been one of Thailand's major exporting food products.

Chart 2: Thailand's Frozen Tuna Imports



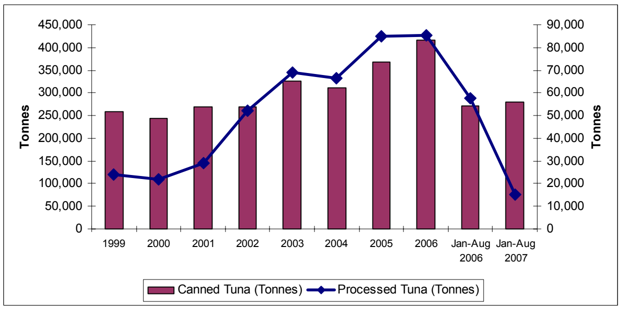
Source: Customs Department of Thailand

However, the Thai canned tuna producers have to import almost all of its frozen raw tuna due to the lack of its own fishing fleet. Major frozen tuna exporting countries are Taiwan, Vanuatu, South Korea, the Maldives, and Japan. Thailand's imports of frozen tuna have fluctuated, depending on tuna prices and world supply. In 2006, Thailand imported 783,443 tonnes of frozen tuna, a 6% increase from the previous year. However, due to high tuna prices during the January-August 2007, the import volume decreased 13% year-on-year to 473,884 tonnes.

Production of canned tuna in Thailand grew at 8.5% per annum during 1999-2005. This is an impressive growth, considering that global production grew by only 1.6% per annum during the same period. Data from the Office of Industrial Economics shows that total production of canned tuna in Thailand was 435,857 tonnes in 2006, with 95.49% of production exported. However, canned tuna production decreased to 247,397 tonnes in the first eight months of 2007, or dropped by 15.5% year-on-year, due to the increase in tuna price.

In 2006, Thailand exported 416,203 tonnes of canned tuna, a 12.9% rise from 2005. The US is the biggest importer of Thai canned tuna, followed by Australia, Canada, and Japan. In addition, canned tuna from Thailand also claims the biggest market share of total US canned tuna imports, with a 37.6% share in 2006. Although Thailand's canned tuna production dropped during January-August 2007, Thailand's canned tuna export grew by 3.3% from the same period in 2006 to 280,243 tonnes.

Chart 3: Thailand's Tuna Exports



Source: Customs Department of Thailand

Over the years, price competition has driven US canned tuna producers to relocate production plants to countries, such as American Samoa, Thailand, and Ecuador, that have lower wages or that are subject to minimal US tariffs. As a US territory, products from American Samoa are exempt from US import duties. The general US import tariff rates for canned tuna in brine is 6% within the quota and 12.5% outside the quota. Canned tuna in oil carries a high tariff rate of 35%. The yearly import quota of canned tuna is set at 20% of the volume of canned tuna produced during the preceding year in the US, excluding American Samoa. The quota volume is considered immaterial since most canned tuna produced in the US is from American Samoa.

There are three major canned tuna brands in the US: StarKist, Bumble Bee, and Chicken of the Sea. StarKist's market share has been declining in recent years, while the shares of Bumble Bee and Chicken of the Sea have increased.

Table 3: US Canned Tuna Market Share

Unit: %

	2003	2004	2005	2006	Jun 07
StarKist	38.9	39.0	33.5	31.1	27.5
Bumble Bee	24.4	24.3	27.4	27.6	30.8
Chicken of the Sea	17.7	17.6	18.3	18.6	20.1

Source: TUF

Thailand's canned tuna exported to the EU has increased, partly because tuna has been used as a protein substitute for poultry, which has suffered from the outbreaks of bird flu. In 2006, Thailand was the second largest of canned tuna export to the EU, after Ecuador. Thai exports of canned tuna to the EU were 79,576 tonnes in 2006, up by 24.4% from 2005. However, Thai canned tuna producers are less competitive in the EU markets due to a high tariff rate of 24% outside the quota, and 12% within the quota. The quota for Thailand is 13,390 tonnes per year. The EU has granted import tariff exemptions for canned tuna from Africa, the Caribbean, and the Pacific Group of States (ACP).

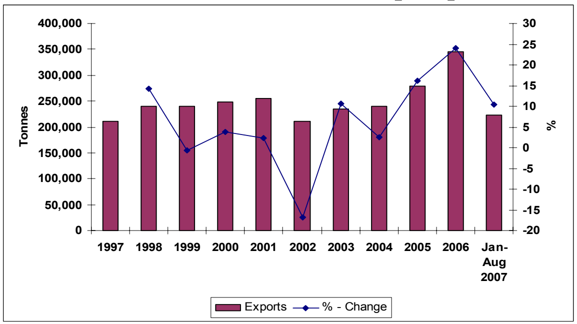
The new bilateral agreement between Thailand and Japan, or also known as the Japan-Thailand Economic Partnership Agreement (JTEPA), was signed on 3 April 2007 and is expected to be effective on 1 November 2007. Under the JTEPA, Japan will lower its import tariffs on Thai canned tuna to 0% within six years from the current 9.6%.

Shrimp:

Shrimp products are the top export earner among all Thai fishery products, with more than 70% of shrimp production exported. In recent years, shrimp production has shifted from black-tiger shrimp to white shrimp or vannamei shrimp which have higher survivability. Vannamei shrimp now accounts for 95% of total shrimp production; black-tiger shrimp production reduced to 5% of the total.

Major export markets for Thai shrimp are the US, which accounts for more than 50% of total shrimp export volume, followed by Japan (16%) and the EU (6%). In 2006, the volume of Thai shrimp exports grew by 23.97%, but growth slowed to 10.34% in January-August 2007 due partly to the appreciation of Thai baht.

Chart 4: Thailand's Shrimp Exports



Source: Department of Trade Negotiations

Since 2004, the US has imposed anti-dumping duties (AD) on shrimp from six countries: Thailand, China, Vietnam, India, Ecuador and Brazil. The AD duty imposed on Thailand was averaged at 5.95%. This rate is lower than the duties imposed on the other countries; therefore, Thailand's competitiveness remains strong in the US market. Besides the AD duties, the US Customs Border Protection Agency has implemented the continuous bond (C-bond), or 100% bank guarantee payment, from operators who import shrimp from countries subject to AD duties. In practice, exporters are responsible for posting the C-bond. This measure has tied up exporters' cash flow and has increased their working capital requirements. While the US Commerce Department recently announced the revocation of the AD order on shrimp from Ecuador in August 2007, Thailand's appeal is still proceeding through the World Trade Organization's (WTO) dispute resolution mechanism. Nonetheless, Thailand remains the largest shrimp exporter to the US and the export volume of Thai shrimp to the US continues to grow. According to the United States Department of Agriculture's Foreign Agricultural Service (FAS), US imports of Thai shrimp increased by 20.3% in 2006 and by 3.82% in January-August 2007.

Since 1 January 2006, the EU's Generalised System of Preferences (GSP) rate has been reinstated for a 10 year period. Under GSP, the duty on frozen shrimp was reduced from 12% to 4.2% and the duty on processed shrimp was lowered from 20% to 7%. In 2006, Thai shrimp export volumes to the EU increased 77.12% as a result of the resumption of GSP.

The JTEPA is expected to reduce import tariff on Thai shrimp to 0% when the agreement becomes effective in the first year. Thailand is among the top five shrimp exporters in Japan. In 2006, Thailand exported 53,957 tonnes of shrimp to Japan, a 9.3% increase from 2005.

BUSINESS ANALYSIS

TUF's strong business profile is supported by its solid canned tuna brand name, economies of scale, management's proven track record, and well-established distribution channels in the US market. However, the company faces significant challenges from high raw-material tuna prices and strong baht.

- ***One of market leaders in world canned tuna***

During the 1990s, the Thai tuna industry encountered problems involving shortages of supply, concerns about dolphin safety, product label standards, low product quality, and trade barriers. Nevertheless, TUF has weathered the highly regulated and volatile environment and emerged as one of the top tuna processors in the world. Its annual canned tuna export volume is larger than that of Ecuador, the second largest canned tuna exporting country in the world.

In 2006, TUF exported 148,618 tonnes of canned tuna, approximately 36% of Thailand's total canned tuna exports. TUF's canned tuna exports accounted for 12%-15% of the volume of world canned tuna exports.

Table 4: World Exports of Canned Tuna

Unit: Thousand tonnes

	2000	2001	2002	2003	2004
World	800.4	775.9	848.7	923.4	1,025.7
Thailand	244.1	269.7	269.4	326.7	377.5
Ecuador	53.6	65.8	80.3	96.5	81.1
Spain	80.8	90.0	76.3	77.7	73.8
France	64.7	16.1	19.2	19.1	69.6
Philippines	44.2	41.5	48.0	56.9	53.9

Source: FISHDAB - 20060810

About 55%-60% of TUF's canned tuna is exported to the US, while the EU ranks the second largest market with about 15%-20%. For the first six-months of 2007, TUF's canned tuna exports (in US dollar term) grew by 10% from the same period in 2006. The growth was driven by healthy demand in the EU market and the strength of the euro against the US dollar, offsetting the slowdown of consumption in the US and Japan. Contributions from the EU are expected to play a more significant role in coming years as the US canned tuna market is highly saturated.

Table 5: TUF's Canned Tuna Export Breakdown by Location

Unit: %

	2003	2004	2005	2006	1H/07
USA	68	67	62	60	56
EU	11	11	13	16	20
Japan	4	5	5	4	3
Others	17	17	20	21	21
Total	100	100	100	100	100

Source: TUF

- ***Product and geographic diversification creates competitive advantage***

TUF's market risk is mitigated through product and geographic diversification. The company's product portfolio includes not only canned and frozen seafood items, but is broadly diversified into pet food and shrimp feed.

TUF's revenue base is also geographically diverse, with the US, the EU, and Japan as the principle markets, while other markets include Australia, Asia (ex-Japan), Middle East, Canada, and Africa. The global penetration allows TUF to market its products to regions where demand is still growing. As the packaged food industry in the US is highly mature, TUF is able to shift its capacity to contract manufacturing for private labels to serve demand in the EU. This diversity helps reduce earning and cash flow volatility and is considered a positive rating factor.

- ***Investment in new vessels enhances market opportunities***

Typically, the tuna-catching business is regarded as a risky investment. However, risk is partially mitigated through TUF's conservative expansion policy. The company's decision to invest Bt1.4 billion to purchase fishing vessels is acceptable considering TUF's funds from operations of about Bt3 billion per annum. Though capacity of the new vessels is not substantial, it provides, to some extent, flexibility in raw material procurement and provides the company with updated market information on the tuna catch. The new ships are expected to improve TUF's cost competitiveness and market penetration, particularly in Japan and the EU, where canned tuna that uses fish from Thai-flagged vessels will be subject to preferential tariff schemes.

- ***Vertical integration in tuna supply chain***

TUF has vertically integrated its tuna supply chain to include processing, packaging, and distribution. TUF imports raw tuna through agents and trading companies that have contracts with several fishing fleets operating in the Pacific and Indian Oceans. There is certain supplier concentration, as about 30% of total raw tuna purchases are from two suppliers. TUF owns facilities that manufacture metal cans and print labels for its canned products, allowing better control of production costs. The established Chicken of the Sea distribution channel in the US enables TUF to stay connected with both retailers and consumers. The top-five buyers of TUF's canned tuna accounted for 20%-25% of its canned tuna sales over the last three years, while no individual US retailer accounted for more than 10%. In addition, fish bones and skins, the by-products of tuna canning, are further processed as ingredients for pet food and shrimp feed. This process allows TUF to fully utilize and extract value from its raw materials, contributing to more solid margins and providing a competitive advantage over smaller industry players.

- ***Relatively stable gross margins but facing a significant challenge in 2007 as tuna price jumped to record highs***

As a large scale operator and high volume purchaser, TUF has a competitive edge from high bargaining power in procuring tuna raw materials, which account for 60%-70% of total production costs. TUF has also demonstrated the ability to stabilize its gross profit margins from the fluctuations of tuna prices through a cost-plus pricing policy. The company's gross profit margins were relatively stable during the past few years, ranging between 15%-18%, despite the variability of raw material prices. However, going forward TUF will face increasingly difficult tasks to maintain its gross margin. The continuing surge in skipjack tuna prices poses a significant challenge for the company. Given that canned tuna is considered a shelf-stable product, there may be certain limitations on the TUF's ability to continually pass cost increases along to consumers without compromising its sales. Buying power of large US retailers is likely to rise overtime from business consolidation. The Sea Value Group, which emerged from the consolidation of several Thai tuna packers, will directly and increasingly compete against TUF in terms of supply, labor, pricing, and customers.

- ***Shrimp exports continue to grow***

TUF exports over 80% of its shrimp products to the US. Its competitive strength in the shrimp segment is lower than for its canned tuna. This is attributable to the highly fragmented shrimp industry in the US, the lack of solid brand recognition, and competition from producers in domestic and emerging markets, such as China and Ecuador. Nonetheless, TUF should enjoy the continuing expansion of shrimp consumption in the US, as per capita annual consumption of shrimp in the US has been rising since 1997 and the per capita shrimp consumption has ranked the highest among all seafood products since 2001.

Table 6: TUF's Frozen Shrimp Export Breakdown by Location

Unit: %

	2003	2004	2005	2006	1H/07
USA	69	77	83	88	87
EU	0	1	2	1	2
Japan	22	17	15	10	10
Others	9	6	1	1	2
Total	100	100	100	100	100

Source: TUF

- ***Premium shrimp quality and distribution network integration***

TUF's competitive edge in the shrimp business stems from its end-to-end integration of the shrimp supply chain, with the exception of shrimp farming, and the company's premium product quality, which meets international standards and regulations. TUF sources raw materials from several domestic shrimp farms to reduce the risk of a disease outbreak. Its recent venture in the shrimp feed and hatchery businesses has reinforced its ability to maintain high product quality by enhancing the traceability process, criteria that is regarded as the most important by many importing countries. TUF primarily distributes shrimp products through its own established channels in the US, with Empress as a wholesaler and COSF as a distributor for retail segment. For the retail segment, in particular, TUF is putting specific emphasis on revitalizing the "Chicken of the Sea" brand and uses it as a platform for frozen and canned seafood products, notably shrimp and crab meat. The results so far are largely positive, with first-half 2007 canned seafood sales up by 31% from the same period in 2006. TUF plans to forge long-term contracts in the US and Japan, where there is still growth potential for value-added seafood products and looks to enhance margins of frozen shrimp products through innovative value-added products under the "Chicken of the Sea" brand name. The company intends to steer away from the commoditized nature of its products by emphasizing brand names, quality, and hygiene.

- ***Feed business enhances income, though contribution remains marginal***

The shrimp feed business has been one of the group's fastest growing segments in recent years, contributing about 6% of total sales in the first half of 2007, up from 4% in 2004. Though performance in the first half of 2007 is under huge pricing pressure from falling domestic shrimp prices, global demand for Thai shrimp still has good prospects, which will subsequently revive the feed market. The shrimp feed business should be another revenue driver for the company in the near to intermediate term.

- ***Careful acquisitions build solid competitive position***

Acquisitions and investments have been key factors in TUF's growth and will continue to be the main engine to drive the company's presence in the global seafood industry. TUF has a focused corporate policy and has followed a conservative acquisition strategy. The company has continually created value around its core business through supply chain extension and the introduction of value-added products. Most of TUF's acquisition targets were initially trading partners with which the company had close business relations. TRIS Rating expects TUF to continue pursuing this strategy as a means to secure raw materials and build market presence in developed and new markets, while doing so, TUF should try to balance such tactics against its financial profile in terms of leverage and operating margins.

- ***Expected benefits from trade liberalization***

As one of the market leaders in the global seafood export business and a low-cost, high-quality producer, TUF stands to benefit from the trend towards global trade liberalization. The recent trade pact between Thailand and Japan, the WTO ruling over the unfair tariff barriers on shrimp imposed by the US, and the GSP privileges granted by the EU are all positive signs for Thai seafood exporters. In addition, global concerns over Chinese food safety standards could create short-term windfalls for high-quality seafood exporters, including TUF. Meanwhile, other cheap-labor countries are expected to become more competitive as global trade barriers gradually subside. TRIS Rating believes TUF will be able to retain its competitive position in the world market despite more intense global competition.

FINANCIAL ANALYSIS

TUF follows a conservative financial policy. Its business diversity helps stabilize earnings. Its key strengths are balanced against the thin profit margins that are inherent in the food processing business. Recent acquisitions and several negative external factors have tightened TUF's margins and financial flexibility to the point where it does not have much cushion left for further leverage increases without weakening its financial profile. About 90% of the company's revenue is in foreign currency. Foreign exchange exposure is 40% hedged from expenses in foreign currency, while 30% is hedged through derivative instruments.

- ***Adequate cash flow protection***

TUF's interest coverage ratio has decreased from 14.5 times in 2004 to 6.8 times in the first half of 2007. The decline is largely influenced by acquisition activities. Funds from operations to total debt was adequate at 16.9% (non-annualized) for the first-half of 2007 and 34.9% in 2006. Since 2005, the company lowered its dividend payout from 70% to 50% in order to preserve some cash for future investments. Internal cash flow generation is more than sufficient for capital expenditures. TUF's working capital financing is supported by its strong and established relationships with financial institutions.

- ***Operating margin is expected to be in the range of 5%-6% in intermediate term***

TUF is rather effective at stabilizing margins through pricing and cost reduction programs. During the past three years, TUF generated earnings before interest, tax, depreciation and amortization (EBITDA) margins between 6.19% - 6.39%, despite tuna price fluctuations and hefty AD duties in the US. The first half of 2007 proved challenging as strong baht and tuna price hikes pressured the EBITDA margin to 5.82%. The margin would have been lower had there not been a series of canned tuna price increases, a reduction in sales and marketing costs, and lower merger-related expenses.

TUF's net profit margin has been relatively stable over the past three years. In fact, the margin even improved slightly in the first half of 2007, thanks to lower interest expenses through the issuance of bonds in 2007, which refinanced its syndicated loans. Even so, the margin will continue to be pressured by rising energy costs, marketing expenses, and the stronger baht, as well as from neighboring countries' competitive forces and the gradual expiration of corporate income tax privileges. Furthermore, if tuna prices continue to rise, TUF's operating margin could be negatively impacted unless the company can generate cost savings or product innovations. On the other hand, the margin will be positively impacted when the company enjoys tariff savings from rules of origin and when it migrates toward higher margin and value-added products.

- ***Leverage expected to stabilize in intermediate term***

TUF's management has in the past demonstrated a willingness to pursue a conservative financial policy. The total debt to capitalization ratio peaked at 62.2% in 1997, when the company set up a joint venture to take over the assets of Van Camp. The ratio was maintained in the 39%-42% range during the last three years, and was at 39.6% as of June 2007. The company's leverage is expected to rise in the second half of 2007 from the vessel purchase. A conservative business expansion policy that is financed by internal cash flow will likely keep TUF's leverage at the current level in the intermediate term.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		Year ended 31 December				
	6/2007	2006	2005	2004	2003	2002
Sales	26,530	55,039	53,643	46,751	40,343	34,243
Gross interest	263	608	361	220	140	158
Net income from operations	819	1,873	2,058	1,970	2,047	1,942
Funds from operations (FFO)	1,561	3,182	3,354	2,757	3,019	2,216
Capital expenditures	768	1,425	1,030	1,744	848	845
Total assets	27,441	27,136	26,994	23,950	20,687	17,988
Total debt	9,240	9,123	9,536	8,631	6,627	4,398
Shareholders' equity	12,661	12,648	11,695	10,706	9,937	9,451
Operating income before depre. and amort. as a % of sales	5.82	6.39	6.36	6.19	7.88	8.86
Pretax return on permanent capital (%)	5.70**	13.04	13.69	12.95	17.46	18.41
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	6.76	6.29	10.40	14.49	24.53	21.07
FFO/total debt (%)	16.89**	34.88	35.17	31.94	45.56	50.39
Total debt/capitalization (%)	39.57	39.28	42.66	42.18	37.81	29.92

* *Consolidated financial statements*

** *Based on six-month performance ending June 2007 (non-annualized)*

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

D The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a *"Rating Outlook"* that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. The rating outlook will be announced in conjunction with the credit rating. In all cases, the outlook assigned to a company will apply to all debt obligations issued by the company. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.

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