



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

YEAR 2015

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the Year 2015)

OVERALL OPERATING RESULTS

The Company's revenue of the year 2015 was Baht 2,602.57 million, which increased from the period year by 4.08 percent. Meanwhile, net profit in year 2015 was Baht 244.27 million, which increased from the period year by 11.38 percent. This was due to an increase in ethanol sales volume and the price in accordance with a continuous increase in the domestic ethanol demand due to the termination of Gasoline 91 and a decrease in crude oil prices in the global market. As a result, the revenue and net profit from ethanol business thus increased significantly.

The ethanol sales volume in year 2015 decreased from the period year by 2.27 percent, and the average ethanol selling price in year 2015 increased from the period year by 6.65 percent. Also, the average domestic demand of ethanol increased from the period year by 8.8 percent. In particular, the consumption of Gasohol E10 (Gasohol 91 and 95) and E20 increased continuously. As a result, the demand for ethanol blended into gasohol increases accordingly, while the demand for gasohol E85 decreased from the same period of last year. Due to the narrowing price difference between Gasohol E85 and other types of Gasohol caused no incentive to consum.

OPERATING RESULTS ANALYSIS

Revenue	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Business	2,600.32	99.91	2,496.28	99.83	104.04	4.17
Other Revenue	2.25	0.09	4.15	0.17	(1.90)	(45.78)
Total Revenue	2,602.57	100.00	2,500.43	100.00	102.14	4.08

REVENUE: The Company's total revenue in year 2015 was Baht 2,602.57 million, which increased from the previous year by Baht 102.14 million or 4.08 percent. This was due to the revenue from ethanol sales was Baht 2,600.32 million or 99.91 percent of total revenue, increased from the period year Baht 104.04 million or 4.17 percent, this was due to the ethanol sales volume was increased as mentioned above.

The other revenue was Baht 2.25 million or 0.09 percent of total revenue, increased from the period year by Baht 1.90 million or 45.78 percent. This was due to a decrease in revenue from Fusel Oil and return on current investments.

Expenses	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	2,244.29	86.31	2,165.52	86.75	78.77	3.64
Selling and administrative expense	48.23	1.85	49.39	1.98	(1.16)	(2.35)
Financial cost	50.06	1.93	57.26	2.29	(7.20)	(12.57)
Income tax expense	15.72	0.60	8.95	0.36	6.77	75.64
Total Expenses	2,358.30	90.69	2,281.12	91.38	77.18	3.38

EXPENSES: The Company's expenses in year 2015 totaled Baht 2,358.30 million, which increased from the previous year Baht 77.18 million or 3.38 percent, due to the following reasons;

(1) Cost of ethanol sales in year 2015 increased from the previous year by Baht 78.77 million or 3.64 percent. This was due to increases in ethanol sales volume of 7.56 million liters or 7.84 percent and an increase in molasses (raw material) price, which is a major cost, from the period year by 0.55 percent.

(2) Selling and administrative expenses in year 2015 decrease from the previous year by Baht 1.16 million or 2.35 percent. Due cause in the year 2014, the company has increased expenses from becoming a listed company.

(3) The reason Financial expenses in year 2015 decrease from the previous year by Baht 7.20 million or 12.57 percent. This was due to there were short term and long term loan repayment, resulting in a decrease in interest expense.

(4) Profit from ethanol business in year 2015 for production line No.2, there was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion, B.E. 2520. But corporate income tax for production line No.1 increased Baht 6.77 million or 75.64 since the investment promotion has expired already.

Gross Profit	Year 2015		Year 2014	
	Baht Million	%	Baht Million	%
Revenue from sales	2,600.32	100.00	2,496.28	100.00
Less cost of sales	2,244.29	86.31	2,165.52	86.75
Gross Profit	356.03	13.69	330.76	13.25

GROSS PROFIT: The Company's gross profit in year 2015 was Baht 356.03 million or 13.69 percent of the sales revenue, which slightly increased from the previous year with the gross profit of Baht 330.76 million or 13.25 percent. This was due to an increase in revenue and ethanol sales volume. And the decrease of cost of sales as described above.

EBITDA AND EBITDA MARGIN (Baht Million)	Year 2015	Year 2014	Increase (Decrease)	%
EBITDA	431.30	391.23	40.07	10.24
EBITDA MARGIN	16.57	15.65	0.93	5.92

EBITDA AND EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in year 2015 is Baht 431.30 million, an increase from the previous year by 10.24 percent due to the increase in profit.

(2) The Company's EBITDA MARGIN in year 2015 is at 16.57 percent of the total revenues, When compared with the previous year, at 15.65 percent EBITDA MARGIN increased by 5.92 percent. This was due to the increase in revenue.

Net Profit	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Net Profit	242.02	99.08	215.16	98.11	26.86	12.48
Other revenue	2.25	0.92	4.15	1.89	(1.90)	(45.78)
Total	244.27	100.00	219.31	100.00	24.96	11.38
Net Earnings per Share –Baht per Share	0.24	-	0.24	-	-	-
Remark: Registered per value of Baht 1 per share						

NET PROFIT: The Company's net profit in year 2015 was Baht 244.27 million or Net Earnings of Baht 0.24 per share. When compared with the previous year, the Net profit increased by 11.38 percent due to the increase in revenue from sales and the decrease in financial expenses as described above.

NET PROFIT & NET PROFIT MARGIN (Baht Million)	Year 2015	Year 2014	Increase (Decrease)	%
NET PROFIT	244.27	219.31	24.96	11.38
NET PROFIT MARGIN	9.39	8.77	0.61	7.01

EARNINGS EFFICIENCY

(1)The Company's NET PROFIT MARGIN in year 2015 was at 9.39 percent, which increased of 7.01 percent, as compared with the previous year with the net profit margin of 8.77 percent.

(2)The Company's RETURN ON EQUITY in year 2015 was at 14.75 percent, a decrease of 8.84 percent, as compared with the previous year with the return on equity of 16.18 percent.

(3)The Company's RETURN ON TOTAL ASSETS and RETURN ON FIXED ASSETS in year 2015 was at 7.37 percent and 15.72 percent, increased of 5.44 percent and 10.63 percent. When compared with the previous year with the return on total assets of 6.99 percent. and 14.21 percent respectively. The asset turnover ratio was at 0.79 times, which increased from the same period last year by 1.25 percent.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2015	As at December 31, 2014	Million Baht	%
Total Assets	3,241.28	3,385.00	(143.72)	(4.25)
Total Liabilities	1,537.73	1,775.83	(238.10)	(13.41)
Total Shareholder's Equity	1,703.55	1,609.17	94.38	5.87
Book Value-Baht per Share	1.70	1.76	(0.06)	(3.41)
Remark: Registered per value of Baht 1 per share				

ASSETS: The Company's total assets as at December 31, 2015 decreased from the end of 2014 by Baht 143.72 million or a decrease of 4.25 percent, consisting of:

(1) Current assets decreased from the end of 2014 by Baht 48.65 million or an crease of 4.88 percent, due to (A) cash and cash equivalent decreased from the end of 2014 by Baht 13.16 million or 59.12 percent; (B) Current investments increased by Baht 0.35 million or a increase of 81.40 percent. (C) trade accounts receivable and other receivables increased from the end of 2014 by Baht 6.71 million or an increase of 3.44 percent; (D) inventories increased from the end of 2014 by Baht 24.14 million or an increase of 21.27 percent, most of which were molasses, purchased or reserved for the year 2016, (E) advances payment for purchase goods decreased by Baht 51.10 million or an increase of 8.12 percent, and (F) other current assets decreased by Baht 15.59 million or a decrease of 43.03 percent, most of which comes from the use tax credits with tax receivables.

(2) Non-current assets decreased from the end of 2014 by Baht 95.07 million or an decrease of 3.98 percent, due to (A) land plant, and equipment decreased from the end of 2014 by Baht 86.07 million or 3.63 percent, (B) Other non current assets decreased by Baht 9.00 million or a decrease of 58.10 percent.

LIABILITIES: The Company's total liabilities as at December 31, 2015 decreased from the end of 2014 by Baht 238.10 million or a decrease of 13.41 percent, consisting of: (A) Trade accounts payable and other accounts payable decreased from the end of 2014 by Baht 66.08 million or a decrease of 49.32 percent, most of which were molasses expenses. (B) Short term and long term loans decreased by Baht 178.21 million or a decrease of 10.99 percent, due to repayment of short-term and long-term loans, and (C) Other liabilities increased by Baht 6.19 million or an increase of 29.56 percent, most of which are operating expenses, interest expense and corporate income tax.

TOTAL SHAREHOLDERS' EQUITY: The Company's total shareholders' equity of the Company as at December 31, 2015 increased from the end of 2014 by Baht 94.38 million or an increase of 5.87 percent. However, in 2014 the price of ordinary shares calculate by weighted average of ordinary shares in issue during the year. resulting in a decrease of the share's book value from Baht 1.76 per share to Baht 1.70 per share and The net profit was baht 244.27 million Baht and dividends payment was Baht 150 million.

Cash Flows	Unit: Million Baht	
	Year 2015	Year 2014
Cash Flows from (used in) Operating Activities	356.20	69.61
Cash Flows from (used in) Investing Activities	(39.37)	(306.55)
Cash Flows from (used in) Financing Activities	(329.99)	247.21
Net Increase (Decrease) in Cash	(13.16)	10.27
Cash at the Beginning of the Period	22.26	11.99
Cash at the End of the Period	9.10	22.26

CASH FLOWS

(1) The Company's net cash used in operating activities in year 2015 was at Baht 356.20 million, consisting of: (A) income before corporate income tax of Baht 259.99 million; (B) transactions that did not affect the cash such as the depreciation of Baht 171.42 million; (C) an increase in operating assets of Baht 30.81 million due to an increase in trade receivable and advance payments for purchase of goods and a decrease in other current assets ; (D) decrease in operating liabilities of Baht 53.58 million due to a decrease in trade accounts payable and other accounts payable, and increase in other current liabilities. And, (E) Pay interest and corporate income tax of Baht 49.33 million and 3.11 million respectively.

(2) The Company's net cash used in investment activities in year 2015 was Baht 39.37 million, consisting of: (A) an increase in land, plant and equipment of Baht 37.65 million, most of which were constructions of a bio-gas power plant, Electrical system for distillery wastewater evaporation system and Installed machine and equipment for Conveying and melting raw sugar, (B) Purchase of intangible assets in the amount of Baht 1.72 million, mainly as a computer program.

(3) The Company's net cash used in financing activities in year 2015 was Baht 329.99 million, including (A) short-term loans repayment of Baht 1.79 million, (B) finance leases repayment of Baht 1.78 million, (C) long-term loans repayment of Baht 180.00 million and (D) dividend payment of Baht 150.00 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at end of 2015 were 6.22 percent of total asset. These receivable accounts are not fully due yet amounts of Baht 200.00 million. The provision of doubtful debts are considered based on a review of receivable period and assessment of past debt collection experience. Accordingly, the Company has not experienced in bad debt and has not found any unusual transaction in the period of year 2015 and therefore, there was no provision for doubtful debt in the period of year 2015.

(2) Inventory as at end of 2015 was 4.25 percent of total asset without deterioration of the assets and impact from the lower market price. Therefore, there was no allowance for impairment loss of inventory in period of year 2015.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's current ratio and quick ratio in period of year 2015 were at 0.77 times and 0.17 times, respectively. Even though, the current ratio was lower than normal, the Company still has adequate credit line for working capital in the future.

(2) The Company's cash cycle in the period of year 2015 was at 15.27 days, an increase from the end of 2014 by 0.21 days. This was due to the average debt collection period increased from 26.81 days in the end of 2014 to 27.46 days in period of year 2015. The Company's average holding period decreased from 2.56 days in the end of 2014 to 2.06 days. Moreover, the average payment period decreased from 14.32 days in the end of 2014 to 14.25 days.

(3) As for investment in 2015, (A) the company has installed machine and equipment for Conveying and melting raw sugar on the production line No.2 is completed in 2nd quarter of 2015, with investment of about Baht 7.00 million. Helping to manage costs in the production of ethanol is lower, and there are enough raw material for the production of ethanol in the year 2015. The source of investment fund for these projects comes from its own cash generation, and (B) Construction hydrogen sulfide treatment system in biogas. with investment of about Baht 42.59 million. expected to be completed in the first quarter of 2016. The source of investment fund for these projects comes from its own cash generation.

DEBT OBLIGATION

The company has obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows.

(1) The company must maintain its debt to equity ratio (D/E ratio) not to exceed 2 times and debt service coverage ratio (DSCR) of no less than 1.25 time in next years until the end of loan agreement, the company was able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan.

(2) The lending bank has determined that Lanna Resources Public Co., Ltd. (Lanna) must maintain its shareholding proportion in TAE of no less than 50 percent of the total number of shares during the whole duration of the loan agreement. Accordingly, Lanna has no plan to decrease its shareholding proportion in TAE to below 50 percent of the total number of shares.

(3) A written approval from the lender bank is required before the company can accrue more debts. Currently, from December 2015, the company has signed Appended a long-term loan agreement with the bank lenders to cancel contract conditions mentioned above.

(4) The lending bank has stipulated that the company cannot pay dividend to its shareholders, including Lanna, if the company cannot comply with the conditions as stipulated within the loan agreement, such as the maintaining of D/E ratio, DSCR, and maintaining of shareholding proportion of Lanna in the company, etc. Accordingly, the company has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

IMPACT TO FUTURE OPERATIONS

According to The Alternative Energy Development Plan: AEDP2015 which has targeted the demand for ethanol to reach 11.30 million liters per day within the year 2036, and its strategy to support the produce of energy crops as feed stock, enhance the production of ethanol and market, and the create awareness and access to knowledge on renewable energy, all those efforts will have positive impact to the Company future as there stands an opportunity for export market and including an additional channel for supply of feed stock from AEC countries allowing the Company more efficiently control the production cost.

However, the trend of crude oil prices on world markets still continue to fluctuate, and may adversely impact the sale volume and selling price in the future. However, The Company has set a policy to increase its competitiveness by improving production efficiency to reduce costs and to put an effort to achieve a sustainable be growth and to continuously and solve any occurred problem carefully in order the performance would be in good standard and could pay dividend to the Company's Shareholders continuously.
