



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF

THE 1st QUARTER 2016

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1st Quarter 2016)

OVERALL OPERATING RESULTS

In the 1st quarter 2016, the company generated a total revenue at Baht 650.26 million and a net profit at Baht 88.80 million, a decrease from the same period last year by 6.34 percent and 24.25 percent respectively. This was due to the prevailing low crude oil and fuel oil prices. As a result, motorists chose to use Gasohol with less Ethanol content making demand for gasohol E20 and E 85 lower than the expected volume. Consequently, the selling price of ethanol was suppressed.

The average ethanol selling price in the 1st quarter 2016 decreased from the same period last year by 10.37 percent. However, ethanol sales volume in the 1st quarter 2016 increased by 4.53 percent as compared to the same period in 2015 due to the increasing consumption of fuel oil when oil prices were low.

OPERATING RESULTS ANALYSIS

REVENUE:

Revenue	1 st quarter 2016		1 st quarter 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol sale	650.21	99.99	693.76	99.92	(43.55)	(6.28)
Other Revenue	0.05	0.01	0.53	0.08	(0.48)	(90.57)
Total Revenue	650.26	100.00	694.29	100.00	(44.03)	(6.34)

The Company's total revenue in the 1st quarter 2016 was Baht 650.26 million, a decrease from the same period last year by Baht 44.03 million or 6.34 percent. Reasons being:

- (1) The revenue from ethanol sales was Baht 650.21 million or 99.99 percent of total revenue, a decrease from the same period last year by Baht 43.55 million or 6.28 percent due to the lower ethanol price as mentioned above.
- (2) The other revenue was Baht 0.05 million or 0.01 percent of total revenue, decreased from the same period last year by Baht 0.48 million or 90.57 percent. This was due to the decrease in income from disposal of assets and decrease in income from current investment.

EXPENSES:

Expenses	1 st quarter 2016		1 st quarter 2015		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	527.25	81.09	542.74	78.23	(15.49)	(2.85)
Selling and administrative expense	13.67	2.10	9.81	1.41	3.86	39.35
Financial cost	10.85	1.67	15.05	2.17	(4.20)	(27.91)
Income tax expense	9.69	1.49	9.46	1.36	0.23	2.43
Total Expenses	561.46	86.35	577.06	83.18	(15.60)	(2.70)

The Company's expenses in the 1st quarter 2016 amounted to Baht 561.46 million, a decrease from the same period last year by Baht 15.60 million or 2.70 percent, Reasons being:

- (1) Cost of ethanol sales in the 1st quarter 2016 decreased from the same previous last year by Baht 15.49 million or 2.85 percent. This was due to the decrease in molasses price from the same period last year by 9.20 percent.
- (2) Selling and administrative expenses in the 1st quarter 2016 increased from the same period last year by Baht 3.86 million or 39.35 percent. This was due to the cost of transportation which increased by the volume of sales, the increase in staff and administration expenses.
- (3) Financial expenses in the 1st quarter 2016 decreased from the same period last year by Baht 4.20 million or 27.91 percent. This was due to short term and long term loan repayment, resulting in a decrease in interest expense.
- (4) Corporate income tax on profit from ethanol sales in the 1st quarter 2016 from production line No.2 was exempted, a benefit from the Board of Investment Promotion, B.E. 2520. However, there has been no corporate tax exemption on profit from production line No.1 since the investment promotion was expired. As a consequence, income tax payable in the 1st quarter 2016 was increased by Baht 0.23 million or 2.43 percent from the same period last year.

GROSS PROFIT:

Gross Profit	1 st quarter 2016		1 st quarter 2015	
	Baht Million	%	Baht Million	%
Revenue from sales	650.21	100.00	693.76	100.00
<u>Less</u> cost of sales	527.25	81.09	542.74	78.23
Gross Profit	122.96	18.91	151.02	21.77

The Company's gross profit in the 1st quarter 2016 was Baht 122.96 million amount to 18.91 percent of the sales revenue, a decrease from Baht 151.02 million or 21.77 percent of sale revenue generated in the same period last year. This was due to the decrease in ethanol selling price as mentioned above.

EBITDA AND EBITDA MARGIN

EBITDA & EBITDA MARGIN (Unit : Baht Million)	1 st quarter 2016	1 st quarter 2015	Increase (Decrease)	%
EBITDA	139.59	169.43	(29.84)	(17.61)
EBITDA MARGIN	21.47	24.40	(2.94)	(12.03)

The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 1st quarter 2016 was Baht 139.59 million, a decrease from the same period last year by 17.61 percent due to above mentioned reasons. The Company's EBITDA MARGIN in the 1st quarter 2016 was 21.47 percent of the total revenues, a decrease of 12.03 percent as compared to 24.40 percent in the same period last year.

NET PROFIT:

Net Profit	1 st quarter 2016		1 st quarter 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Net Profit	88.80	100.00	117.23	100.00	(28.43)	(24.25)
Net Profit Margin	13.66		16.88		(3.23)	(19.12)
Net Earnings per Share –Baht per Share	0.09		0.12		(0.03)	(25.00)
Remark: Registered par value of Baht 1 per share						

(1) The Company's net profit in the 1st quarter 2016 was Baht 88.80 million or Baht 0.09 per share. Net profit decreased from the same period last year by 24.25 percent due to the decrease in ethanol sale revenue as described above.

(2) The Company's Net Profit Margin in the 1st quarter 2016 was 13.66 percent, a decrease from 16.88 percent in the same period last year.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht			
	As at March 31, 2016	As at December 31, 2015	Increase (Decrease)	%
Total Assets	3,236.89	3,241.28	(4.39)	(0.14)
Total Liabilities	1,444.54	1,537.73	(93.19)	(6.06)
Total Shareholder's Equity	1,792.35	1,703.55	88.80	5.21
Book Value-Baht par Share	1.79	1.70	0.09	5.29
Remark: Registered par value of Baht 1 per share				

ASSETS:

The Company's Total Assets as at March 31, 2016 decreased from year end 2015 by Baht 4.39 million or 0.14 percent. Total Assets consisting of:

- (1) Current Assets decreased from year end 2015 by Baht 55.93 million or 5.90 percent, due to (A) Cash and cash equivalent decreased from year end 2015 by Baht 0.46 million or 5.05 percent; (B) Current investments increased from the end of 2015 by Baht 0.02 million or 2.56 percent; (C) Trade accounts receivable and other receivables increased from year end 2015 by Baht 20.99 million or 10.41 percent; (D) Inventories increased from yearend 2015 by Baht 178.42 million or 129.66 percent, most of which were molasses purchased or reserved for year 2016 (E) Advanced payments for purchases decreased from yearend 2015 by Baht 241.44 million or 41.82 percent, and (F) Other Current Assets decreased by Baht 13.13 million or 63.61 percent, most of which were tax receivables.
- (2) Non-Current Assets increased from yearend 2015 by Baht 51.54 million or 2.25 percent, consisting of: (A) land, plant, and equipment increased by Baht 52.16 million or 2.28 percent; (B) Other non-current assets decreased by Baht 0.62 million or 9.55 percent.

LIABILITIES:

The Company's Total Liabilities as at March 31, 2016 decreased from year end 2015 by Baht 93.19 million or 6.06 percent, consisting of: (A) Trade accounts payable and other accounts payable increased from the end of 2015 by Baht 130.94 million or 192.81 percent, most of which were molasses purchase. (B) Short term and long term loans decreased by Baht 226.17 million or 15.68 percent due to repayment of short term loans. and (C) Other liabilities increased by Baht 2.04 million or 7.52 percent, most of which were operating expenses and interest expense.

TOTAL SHAREHOLDERS' EQUITY:

The Company's total shareholders' equity as at March 31, 2016 increased from year end 2015 by Baht 88.80 million or 5.21 percent, As a result, the share's book value increased from Baht 1.70 per share to Baht 1.79 per share. This was due to the increase in net profit.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	1 st quarter 2016	1 st quarter 2015
Cash Flows from Operating Activities	297.14	117.41
Cash Flows from Investing Activities	(70.95)	(8.89)
Cash Flows from Financing Activities	(226.65)	(111.60)
Net Increase (Decrease) in Cash	(0.46)	(3.08)
Cash at the Beginning of the Period	9.10	22.26
Cash at the End of the Period	8.64	19.18

- (1) The Company's net cash used in operating activities in the 1st quarter 2016 was Baht 297.14 million, consisting of: (A) profit before corporate income tax of Baht 98.49 million; (B) Non-cash items such as depreciation; 41.49 million.(C) a decrease in operating assets of Baht 55.53 million due to a increase in trade receivable and advance payments for purchase of goods; (D) increase in operating liabilities of Baht 113.00 million due to an increase in trade accounts payable and other accounts payable, and (E) interest expense by Baht 11.37 million.
- (2) The Company's net cash used in investment activities in the 1st quarter 2016 was Baht 70.95 million, consisting of: (A) an increase in land, plant and equipment of Baht 70.94 million, most of which were constructions of Hydrogen Sulfide Treatment Plant and Construction of Molasses Tanks and (B) Purchase of intangible assets in the amount of Baht 0.01 million, mainly as a computer program.
- (3) The Company's net cash used in financing activities in 1st quarter 2016 was Baht 226.65 million, including (A) Repayment of short-term loan of Baht 226.17 million, (B) Repayment of finance lease of Baht 0.48 million.

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 throughout the duration of loan agreement. So far, the company has been able to maintain the D/E and DSCR ratio as required.
- (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. So far, Lanna has no policy to decrease its shareholding proportion in TAE to below 50 percent of the total number of shares.
- (3) A written approval from the lending bank is required before the company can accrue more debts. However, in December 2015, the company has signed an addendum to the loan agreement with the lending bank to waive such the condition;
- (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 stipulated in the loan agreement. such as maintaining of D/E and DSCR ratio, and maintaining shareholding proportion of Lanna in the company, etc. So far, the company has not breached the conditions of loan agreements and has been provided with good financial support from the 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 these efforts have positive impact to the Company business as there stands an opportunity for growing market including an additional channel for supply of feed stock from AEC countries allowing the Company to effectively control the productivity and costs.

The trend of crude oil prices on world markets still continue to fluctuate, and may affect the sale volume and selling price in the future. However, The Company has set a policy to increase its competitiveness by improving production efficiency and control of its operation costs. Study on products diversification such as ethanol derivatives are undergoing as part of the effort to generate new business and to sustain a continuous growth for the benefits of the Company and its shareholders.
