



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

THE 3rd QUARTER 2015 AND IN THE FIRST 9-MONTH PERIOD OF 2015

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3rd Quarter 2015 and the First 9-Months of 2015)

OVERALL OPERATING RESULTS

The Company's revenue in the 3rd quarter 2015 were Baht 639.09 million, a decrease from the same period of last year by 7.29 percent, while the revenue in the first 9-month period of 2015 were Baht 2,002.62 million, an increase from the same period last year by 4.12 percent. The net profit in the 3rd quarter 2015 and the first 9-month period of 2015 were Baht 39.30 million and Baht 215.24 million respectively, an increase from the same period of last year by 4.97 and 10.04 percent. This was due to the Government policy of cease Gasoline 91 sale and to promote the use of Gasohol E20 as well as E85 instead.

The ethanol sales volume in the 3rd Quarter 2015 and the first 9-month period of 2015 decreased from the same period of last year by 2.78 and 1.18 percent respectively, Which is in line with the drop in oil prices. The average ethanol selling price in the 3rd Quarter 2015 decreased from the same period of last year by 4.35 percent. This was due to the increased of market competition of ethanol. While the ethanol sales volume in the first 9-month period of year 2015 increased from the same period of last year by 5.53 percent. This was due to the average domestic demand of ethanol increased from the same period of last year by 5.67 percent. due to the continuous increase of Gasohol consumption E10 (Gasohol 91 and 95) and E20 demand, As a result, the demand for Ethanol increases accordingly, However the demand for gasohol E85 decreased from the same period of last year by 17.00 percent. due to the narrowing price difference between GasoholE85 and other types of Gasohol.

OPERATING RESULTS ANALYSIS

Revenue	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
3rd quarter (July – September)						
Sales Revenue	638.67	99.93	688.00	99.80	(49.33)	(7.17)
Other Revenue	0.42	0.07	1.36	0.20	(0.94)	(69.12)
Total Revenue	639.09	100.00	689.36	100.00	(50.27)	(7.29)
9-Month Period (January – September)						
Sales Revenue	2,001.13	99.93	1,920.03	99.83	81.10	4.22
Other Revenue	1.49	0.07	3.28	0.17	(1.79)	(54.57)
Total Revenue	2,002.62	100.00	1,923.31	100.00	79.31	4.12

REVENUE

- (1) The Company's total revenue in the 3rd quarter 2015 totaled Baht 639.09 million, which decreased from the same period last year by Baht 50.27 million or 7.29 percent, due to the following reasons.
- (1.1) The revenue from ethanol sales was Baht 638.67 million or 99.93 percent of total revenue, decreased from the same period of last year Baht 49.33 million or 7.17 percent, this was due to the ethanol sales volume and ethanol selling price were decreased as mentioned above.
- (1.2) The other revenue was Baht 0.42 million or 0.070 percent of total revenue, decreased from the same period of last year by Baht 0.94 million or 69.12 percent.
- (2) The company's revenue in the first 9-month period of 2015 totaled Baht 2,002.62 million, increased from the same period of last year Baht 79.31 million or 4.12 percent, due to the following reasons.
- (2.1) The revenue from ethanol sales totaled Baht 2,001.13 million or 99.93 percent of total revenue, increased from the same period of last year Baht 81.10 million or 4.22 percent, this was due to the ethanol sales volume and selling price were increased as mentioned above.
- (2.2) The other revenue was Baht 1.49 million or 0.07 percent of total revenue, decreased from the same period of last year by Baht 1.79 million or 54.57 percent, this was due to revenue from sale of Fusel Oil and income from Current investments decreased.

Expenses	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
3rd quarter (July – September)						
Cost of sale	575.62	90.13	626.16	91.01	(50.54)	(8.07)
Selling and administrative expense	13.58	2.13	13.31	1.93	0.27	2.03
Financial cost	10.59	1.66	12.45	1.81	(1.86)	(14.94)
Total Expenses	599.79	93.91	651.92	94.76	(52.13)	(8.00)
9-Month Period (January – September)						
Cost of sale	1,697.15	84.81	1,643.46	85.60	53.69	3.27
Selling and administrative expense	51.31	2.56	41.00	2.14	10.31	25.15
Financial cost	38.92	1.94	43.25	2.25	(4.33)	(10.01)
Total Expenses	1,787.38	89.32	1,727.71	89.98	59.67	3.45

EXPENSES

- (1) The Company's expenses in the 3rd quarter 2015 totaled Baht 599.79 million, which decreased from the same period of last year Baht 52.13 million or 8.00 percent, due to the following reasons.
- (1.1) Cost of ethanol sales decreased from the same period of last year by Baht 50.54 million or 8.07 percent. This was due to decrease in molasses (raw material) price, which is a major cost,

from the same period of last year by 1.33 percent. In addition, raw sugar was used as raw material in the production of ethanol with molasses.

- (1.2) Selling and administrative expenses increased from the same period of last year by Baht 0.27 million or 2.03 percent, this was due to the increase of number of employees, according to the organizational structure changes for business expansion in the future.
- (1.3) Financial expenses decreased from the same period of last year by Baht 1.86 million or 14.94 percent. This was due to there were short term and long term loan repayment, resulting in a decrease in interest expense.
- (1.4) Profit from ethanol business in the 3rd quarter 2015 for production line No. 2, there was no corporate income tax. This was due to having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. But corporate income tax for production line No.1 decreased from the same period of last year by Baht 1.99 million, since the investment promotion has expired already.
- (2) The Company's expenses in the first 9-month period of 2015 totaled Baht 1,787.38 million, which increased from the same period last year Baht 59.67 million or 3.45 percent, due to the following reasons.
- (2.1) Cost of ethanol sales increased from the same period of last year by Baht 53.69 million or 3.27 percent. This was due to increase in molasses (raw material) price, which is a major cost, from the same period last year by 2.03 percent.
- (2.2) Selling and administrative expenses increased from the same period of last year by Baht 10.31 million or 25.15 percent. This was due to the increase of number of employees, according to the organizational structure changes for business expansion in the future.
- (2.3) Financial expenses decreased from the same period of last year by Baht 4.33 million or 10.01 percent. This was due to there were short term and long term loan repayment, resulting in a decrease in interest expense.
- (2.4) Profit from ethanol business in the first 9-month period of 2015 for production line No. 2, there was no corporate income tax. This was due to having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. But corporate income tax for production line No.1 increased from the same period of last year by Baht 6.49 million, this was due to the investment promotion has expired already.

Gross profit	Year 2015		Year 2014	
	Baht Million	%	Baht Million	%
3rd quarter (July – September)				
Revenues from sales	638.67	100.00	688.00	100.00
Less cost of sales	575.62	90.13	626.16	91.01
Gross Profit	63.05	9.87	61.84	8.99

9-Month Period (January – September)				
Revenues from sales	2,001.13	100.00	1,920.03	100.00
Less cost of sales	1,697.15	84.81	1,643.46	85.60
Gross Profit	303.98	15.19	276.57	14.40

GROSS PROFIT

- (1) The Company's gross profit in the 3rd quarter 2015 was Baht 63.05 million, or gross profit margin of 9.87 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 61.84 million or gross profit margin of 8.99 percent of the sales revenue, the gross profit margin increased due to the decreased in molasses (raw material) price as described above.
- (2) The Company's gross profit in the first 9-month period of 2015 was Baht 303.98 million, or gross profit margin of 15.19 percent of the sales revenue. When compared with the gross profit of the same period last year of 276.57 million or gross profit margin of 14.40 percent of the sales revenue. This was due to the increase of ethanol sales as described above.

EBITDA & EBITDA MARGIN	Year 2015	Year 2014	Increase (Decrease)	
	Baht Million	Baht Million	Baht Million	%
3rd quarter (July – September)				
EBITDA	83.08	80.86	2.22	2.75
EBITDA MARGIN	13.00	11.73	1.27	10.83
9-Month Period (January – September)				
EBITDA	358.89	326.46	32.43	9.93
EBITDA MARGIN	17.92	16.97	0.95	5.58

EBITDA AND EBITDA MARGIN

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 3rd quarter 2015 was Baht 83.08 million. When compared with the same period of last year, increased by 2.75 percent, due to the increase in net profit as described above. The Company's EBITDA MARGIN in the 3rd quarter 2015 was at 13.00 percent of the total revenues. When compared with the same period of last year, the EBITDA MARGIN was at 11.73 percent of the total revenues, decreased by 10.83 percent.
- (2) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2015 was Baht 358.89 million. When compared with the same period of last year, increased by 9.93 percent, due to the increase in net profit as described above. The Company's EBITDA MARGIN in the first 9-month period of 2015 was at 17.97 percent of the total revenues. When compared with the same period of last year, the EBITDA MARGIN was at 16.97 percent of the total revenues, decreased by 5.58 percent.

Net Profit	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
3rd quarter (July – September)						
Net Profit	38.88	98.93	36.08	96.37	2.80	7.76
Other Revenue	0.42	1.07	1.36	3.63	(0.94)	(69.12)
Total	39.30	100.00	37.44	100.00	1.86	4.97
Earnings per share (Baht)	0.04		0.04		-	-
9-Month Period (January – September)						
Net Profit	213.75	99.31	192.32	98.32	21.43	11.14
Other Revenue	1.49	0.69	3.28	1.68	(1.79)	(54.57)
Total	215.24	100.00	195.60	100.00	19.64	10.04
Earnings per share (Baht)	0.22		0.22		-	-
Remark: Registered per value of Baht 1 per share						

NET PROFIT

- (1) The Company's net profit in the 3rd quarter 2015 was Baht 39.30 million or net earnings of Baht 0.04 per share. When compared with the same period last year, the net profit increased by 4.97 percent, due to the decrease in selling and administrative expenses as described above.
- (2) The Company's net profit in the first 9-month period of 2015 was Baht 215.24 million or net earnings of Baht 0.22 per share. When compared with the same period of last year, the net profit increased by 10.04 percent, due to the decrease in selling and administrative expenses as described above.

NET PROFIT & NET PROFIT MARGIN	Year 2015	Year 2014	Increase (Decrease)	
	Baht Million	Baht Million	Baht Million	%
3rd quarter (July – September)				
NET PROFIT	39.30	37.44	1.86	4.97
NET PROFIT MARGIN	6.15	5.43	0.72	13.22
9-Month Period (January – September)				
NET PROFIT	215.24	195.60	19.64	10.04
NET PROFIT MARGIN	10.75	10.17	0.58	5.68

EARNINGS EFFICIENCY

- (1) The Company's net profit margin in the 3rd quarter 2015 was at 6.15 percent of the total revenues, which increased from the same period of last year of 5.43 percent by 13.22 percent.
- (2) The Company's net profit margin in the first 9-month period of 2015 was at 10.75 percent of the total revenues, which increased from the same period of last year of 10.17 percent by 5.68 percent.

- (3) The Company's return on equity in the first 9-month period of 2015 was at 17.48 percent. When compared with the same period of last year with the average return on equity of 19.42 percent, it increased by 9.99 percent.
- (4) The Company's return on total assets and return on fixed assets in the first 9-month period of 2015 were 8.95 percent and 17.42 percent respectively, When compared with the same period last year with the return on total assets and return on fixed assets of 8.84 percent and 16.02 percent, increased by 1.24 percent and 8.74 percent respectively. The asset turnover ratio was at 0.62 times, which increased from the same period last year by 4.62 percent.

Financial Position	Unit: Million Baht			
	As at September 30,	As at December 31,	Increase	%
	2015	2014	(Decrease)	
Total Assets	3,027.55	3,385.00	(357.45)	(10.56)
Total Liabilities	1,353.14	1,775.83	(422.69)	(23.80)
Total Shareholder's Equity	1,674.41	1609.17	65.24	4.05
Book Value-Baht per Share	1.67	1.76	(0.09)	(5.11)
Remark: Registered per value of Baht 1 per share				

STATEMENT OF FINANCIAL POSITION

ASSETS

The Company's total assets as at September 30, 2015 decreased from the end of 2014 by Baht 357.45 million or decreased of 10.56 percent, consisting of:

- (1) Current assets decreased from the end of 2014 by Baht 280.85 million or an decrease of 28.18 percent, due to (A) Cash and cash equivalent decreased by Baht 4.39 million or an decrease of 19.72 percent, (B) Current investments increased by Baht 0.32 million or an decrease of 74.42 percent, (C) Trade and other receivables increased by Baht 28.52 million or an increase of 14.63 percent, (D) inventories increased by Baht 341.02 million or an increase of 300.54 percent, most of which were molasses and raw sugar, purchased or reserved for the 4th quarter 2015, (E) Advances payment for purchase goods decreased by Baht 612.75 million or a decrease of 97.38 percent, and (F) Other current assets decreased by Baht 33.57 million or a decrease of 92.66 percent.
- (2) Non-current assets decreased from the end of 2014 by Baht 76.60 million or decrease of 3.21 percent, due to (A) land, plant, and equipment decreased by Baht 67.80 million or decrease of 2.86 percent. (B) Other non-current assets decreased by Baht 8.80 million or decrease of 56.81 percent.

LIABILITIES

The Company's total liabilities as at September 30, 2015 decreased from the end of 2014 by Baht 422.69 million or a decrease of 23.80 percent, due to: (A) Trade and other receivables decreased by Baht 33.52 million or increase of 25.02 percent, most of which were molasses expenses. (B) Short term and long term loans decreased by Baht 395.82 million or decrease of 24.42 percent, due to loan repayment of short-term and long-term. (C) Other liabilities increased by Baht 6.65 million or an increase of 31.76 percent, most of which are operating expense, income tax and interest expense.

TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at September 30, 2015 increased from the end of 2014 by Baht 65.24 million or an increase of 4.05 percent. However, in year 2014 the share price calculated by weighted average number of ordinary shares outstanding during the year. Resulting in decrease of the share's book value from Baht 1.76 per share to Baht 1.67 per share. Net profit increased by Baht 215.24 million and dividend payment of Baht 100.00 million.

Cash Flows	First 9-months period (January – September)	
	Unit: Million Baht	
	Year 2015	Year 2014
Cash Flows from (used in) Operating Activities	569.66	364.31
Cash Flows from (used in) Investing Activities	(27.22)	(290.65)
Cash Flows from (used in) Financing Activities	(546.83)	(67.29)
Net Increase (Decrease) in Cash	(4.39)	6.37
Cash at the Beginning of the Period	22.26	11.99
Cash at the End of the Period	17.87	18.36

CASH FLOWS

- (1) The Company's net cash from operating activities in the first 9-month period of 2015 was at Baht 569.66 million, consisting of; (A) income before corporate income tax payment of Baht 203.94 million; (B) transactions that did not affect the cash such as the depreciation; Baht 128.88 million; (C) an decrease in operating assets of Baht 271.94 million due to increase in trade receivable and inventories while advance payments for purchase of goods increased; (D) an decrease in operating liabilities of Baht 19.60 million due to an increase in trade accounts payable and other accounts payable, and (E) interest expense and income tax payment were Baht 38.52 million and Baht 3.11 million, respectively.
- (2) The Company's net cash used in investment activities in the first 9-month period of 2015 was Baht 27.22 million, consisting of: (A) an increase in property, plant and equipment of Baht 30.83 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) Cash payment for the purchase of intangible assets of Baht 1.71 million, most of which was a computer program.

- (3) The Company's net cash used in financing activities in the first 9-month period of 2015 was Baht 546.83 million; including (A) short-term loans repayment of Baht 305.82 million, (B) finance leases repayment of Baht 1.01 million, (C) long-term loans repayment of Baht 90.00 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 2014 were 5.76 percent of total asset. These receivable accounts are not fully due yet was Baht 184.00 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 first 9-month period of 2015 and therefore, there was no provision for doubtful debt in the first 6-month period of 2015.
- (2) Inventory as at end of 2014 was 3.35 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 first 9-month period of 2015.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

- (1) The Company's current ratio and quick ratio in the first 9-month period of 2015 were at 0.74 times and 0.25 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 first 9-month period 2015 was at 17.44 days, an increase from the end of 2014 by 2.38 days. This was due to the average debt collection period increased from 26.81 days in the end of 2014 to 28.23 days in the first 9-month period 2015. The Company's average holding period increased from 2.56 days in the end of 2014 to 6.00 days. Moreover, the average payment period decreased from 14.32 days in the end of 2014 to 16.80 days.
- (3) As for investment in 2015, 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. This will help with the cost management making the ethanol production cost lower and more effective 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.

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 1.10 times in 2014 and no less than 1.50 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, the company has adequate credit line for its working capital for business operation. Additionally, the company has obtained approval from the Office of the Securities and Exchange Commission for trading in public of common shares and the Stock Exchange of Thailand obtained the common shares as registered securities and the trading would begin from June 5, 2014, which will help the company in acquiring additional sources of capital in the future, making the capital structure of the company more appropriate.
- (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 Shareholders.
