



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

YEAR 2017

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the Year 2017)

OVERALL OPERATING RESULTS

The Company's revenue of the year 2017 was Baht 2,472.76 million, increased by 2.25 percent from the previous year. This was due to the selling price of ethanol increased by 10.48 percent. While the net profit in year 2017 was Baht 48.86 million, decreased by 72.57 percent mainly was due to the price of molasses increased by 10 percent from the previous year, which was affected by the severe drought.

In early October 2017, there was heavy and continuous rainfall that weakened the structure of the earthen dyke causing to give way, thus resulting in the leak of treated vinasse overflowing into the residential and some agricultural areas around the factory. As a result, the company inevitably stopped production in October and November in order to restore the damaged earthen dyke. The company resumed the production in October 2017 after the restoration was completed and compensation for damages to properties was made.

OPERATING RESULTS ANALYSIS

REVENUE:

Revenue	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Business	2,470.52	99.91	2,415.07	99.86	55.45	2.30
Other Revenue	2.24	0.09	3.28	0.14	(1.04)	(31.71)
Total Revenue	2,472.76	100.00	2,418.35	100.00	54.41	2.25

The Company's total revenue in year 2017 was Baht 2,472.76 million, increased from the previous year by Baht 54.41 million or 2.25 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 2,470.52 million or 99.91 percent of total revenue, increased by Baht 55.45 million or 2.30 percent from the same period last year due to the increase of ethanol selling price as explained above.

- (2) The other revenue was Baht 2.24 million or 0.09 percent of total revenue, decreased by Baht 1.04 million or 31.71 percent from the same period of last year. This was due to the income from the sales of Assets and Fusel Oil.

EXPENSES:

Expenses	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	2,219.67	89.85	2,111.84	87.44	107.83	5.11
Selling and administrative expense	98.56	3.99	77.68	3.22	20.88	26.88
Loss from flood event	73.32	2.97	-	-	73.32	-
Financial cost	32.85	1.33	37.79	1.56	(4.94)	(13.07)
Income tax expense	(0.05)	(0.02)	12.94	0.54	(13.44)	(103.86)
Total Expenses	2,423.90	98.11	2,240.25	92.76	183.65	8.20

The Company's expenses in year 2017 was Baht 2,423.90 million, increased by Baht 183.65 million or 8.20 percent from the previous year, due to the following reasons;

- (1) Cost of ethanol sales in year 2017 increased by Baht 107.83 million or 5.11 percent from the previous year, caused by the rise in raw material prices over last year.
- (2) Selling and administrative expenses in year 2017 increased by Baht 20.88 million or 26.88 percent from the previous year. This was due to the production costs during production disruption were transferred to selling and administrative expenses.
- (3) Loss from flood event in year 2017 was Baht 73.32 million. This was due to the company paid compensation for damage to people who were affected by the treated vinasse leakage.
- (4) Financial expenses in year 2017 decreased by Baht 4.94 million or 13.07 percent from the previous year. This was due to short term and long term loan repayment.
- (5) Profit from ethanol business in year 2016 for production line No.2, was exempted from corporate income tax on the earnings from the ethanol business as a privilege received the Board of Investment Promotion, B.E. 2520. However corporate income tax for production line No.1 decreased by Baht 13.44 million or 103.86 percent since the investment promotion has already expired.

GROSS PROFIT:

Gross Profit	Year 2017		Year 2016	
	Baht Million	%	Baht Million	%
Revenue from sales	2,470.52	100.00	2,415.07	100.00
Less cost of sales	2,219.67	89.85	2,111.84	87.44
Gross Profit	250.85	10.15	303.23	12.56

The Company's gross profit in year 2017 was Baht 250.85 million or 10.15 percent of the sales revenue, as compared with the gross profit of Baht 303.23 million or 12.56 percent of the sales revenue in the previous year. This was due to an increase in cost of sales as described above.

EBITDA AND EBITDA MARGIN

EBITDA AND EBITDA MARGIN (Baht Million)	Year 2017	Year 2016*	Increase (Decrease)	%
EBITDA	227.79	354.30	(126.51)	(35.71)
EBITDA MARGIN	9.21	14.65	(5.44)	-

The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in year 2017 was Baht 227.79 million, a decrease from the previous year by 35.71 percent. The Company's EBITDA MARGIN in year 2017 was 9.21 percent of the total revenues, a decreased by 5.44 percent from the previous year. (*Year 2016: EBITDA was Baht 353.62 million and EBITDA MARGIN was 14.62 percent, due to using only Interest expense in the calculation. While Year 2017 use financial cost to calculate.)

NET PROFIT:

NET PROFIT & NET PROFIT MARGIN (Baht Million)	Year 2017	Year 2016	Increase (Decrease)	%
NET PROFIT	48.86	178.10	(129.24)	(72.57)
NET PROFIT PER SHARE (BAHT)	0.05	0.18	(0.13)	(72.22)
NET PROFIT MARGIN	1.98	7.36	(5.38)	-
Remark: Registered per value of Baht 1 per share				

The Company's net profit in year 2017 was Baht 48.86 million or net earnings of Baht 0.05 per share. When compared with the same period of last year, the net profit decreased by 72.57 percent due to the floods mentioned above. The Company's net profit margin in year 2017 was 1.98 percent of the total revenues, a decrease by 5.38 percent as compared with the same period of last year.

STATEMENT OF FINANCIAL POSITION :

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2017	As at December 31, 2016	Million Baht	%
Total Assets	2,830.29	3,225.18	(394.89)	(12.24)
Total Liabilities	1,202.38	1,493.53	(291.15)	(19.49)
Total Shareholder's Equity	1,627.91	1,731.65	(103.74)	(5.99)
Book Value-Baht per Share	1.63	1.73	(0.10)	(5.78)
Remark: Registered per value of Baht 1 per share				

ASSETS: The Company's total assets as at December 31, 2017 decreased from the end of 2016 by Baht 394.89 million or a decrease of 12.24 percent. The total assets consisting of:

(1) Current assets decreased from the end of 2016 by Baht 480.71 million or a decrease of 53.10 percent, due to (A) cash and cash equivalent decreased from the year end 2016 by Baht 1.74 million or 4.70 percent; (B) Current investments increased by Baht 0.66 million or an increase of 6.25 percent. (C) trade accounts receivable and other receivables decreased from the year end 2016 by Baht 47.26 million or an decrease of 28.55 percent; (D) inventories decreased from the end of 2016 by Baht 3.21 million or an decrease of 2.55 percent, most of which were molasses, (E) advances payment for purchase goods decreased by Baht 505.18 million or a decrease of 92.93 percent, and (F) other current assets decreased by Baht 17.90 million or a decrease of 55.95 percent.

(2) Non-current assets increased from the year end 2017 by Baht 85.82 million or an increase of 3.70 percent, due to (A) land plant, and equipment increased from the year end 2016 by 83.93 million or 3.63 percent, (B) Other non-current assets increased by Baht 1.89 million or a decrease of 34.18 percent.

LIABILITIES: The Company's total liabilities as at December 31, 2017 decreased from the year end 2016 by Baht 291.15 million or a decrease of 19.49 percent, consisting of: (A) Trade accounts payable and other accounts payable decreased from the year end 2016 by Baht 22.52 million or a decrease of 12.35 percent, most of which were molasses cost. (B) Short term and long term loans decreased by Baht 267.56 million or a decrease of 20.83 percent, due to loan repayment, and (C) Other liabilities decreased by Baht 1.07 million or 3.99 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at December 31, 2017 decreased from the year end 2016 by Baht 103.74 million or 5.99 percent, the share's book value decreased from Baht 1.73 per share to Baht 1.63 per share, due to the decrease of company net profit.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	Year 2017	Year 2016
Cash Flows from (used in) Operating Activities	640.96	460.74
Cash Flows from (used in) Investing Activities	(221.79)	(121.76)
Cash Flows from (used in) Financing Activities	(420.91)	(311.03)
Net Increase (Decrease) in Cash	(1.74)	27.95
Cash at the Beginning of the Period	37.05	9.10
Cash at the End of the Period	35.31	37.05

(1) The Company's net cash used in operating activities in year 2017 was Baht 640.96 million, consisting of: (A) income before corporate income tax at Baht 48.36 million; (B) Non cash items such as the depreciation amounted to Baht 180.16 million; (C) a decrease in operating assets of Baht 486.65 million due to an increase in trade and other receivables and inventories while advance payments for purchase of goods and current assets decreased; (D) a decrease in operating liabilities at Baht 30.79 million due to decreased in account and other payable, provision for long-term employees benefits and other current liabilities. (E) Interest income at Baht 0.17 million baht; (F) interest expense at Baht 33.04 million, and (G) Corporate income tax at 10.55 million.

(2) The Company's net cash used in investment activities in year 2017 was Baht 221.79 million, most of which were machinery, equipment of Hydrogen Sulfide Treatment Plant and support for productivity projects.

(3) The Company's net cash used in financing activities in year 2017 was Baht 420.91 million which included (A) short-term loan at Baht 87.57 million, (B) long-term loan repayment at Baht 180.00 million (C) financial leases repayment at Baht 3.34 million, and (D) dividend payment at Baht 150.00 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 in next years until the end of loan agreement, the floods made the company unable to maintain DSCR ratio under the terms of the loan agreement. However, the lending bank has waived the conditions for the year ended December 31, 2017 to the Company.

(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) 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

The Department of Energy Business (DOEB) is currently reviewing the phasing out of gasohol 91 in the oil retailing market nationwide. Once gasohol 91 is phased out, the use of E20 gasohol is expected to increase thus resulting in higher ethanol demand. Meanwhile, the world's crude oil price is expected to rise in year 2018. This is an important factor that benefits the ethanol industry as a whole. However, competition amongst ethanol producers is expected to be stronger as supply still surpasses demand. Nevertheless, the company continues to enhance the competitiveness by improving the efficiency of production and decreasing the production cost in order to sustain the business growth and the dividend policy.
