

28 December 2015

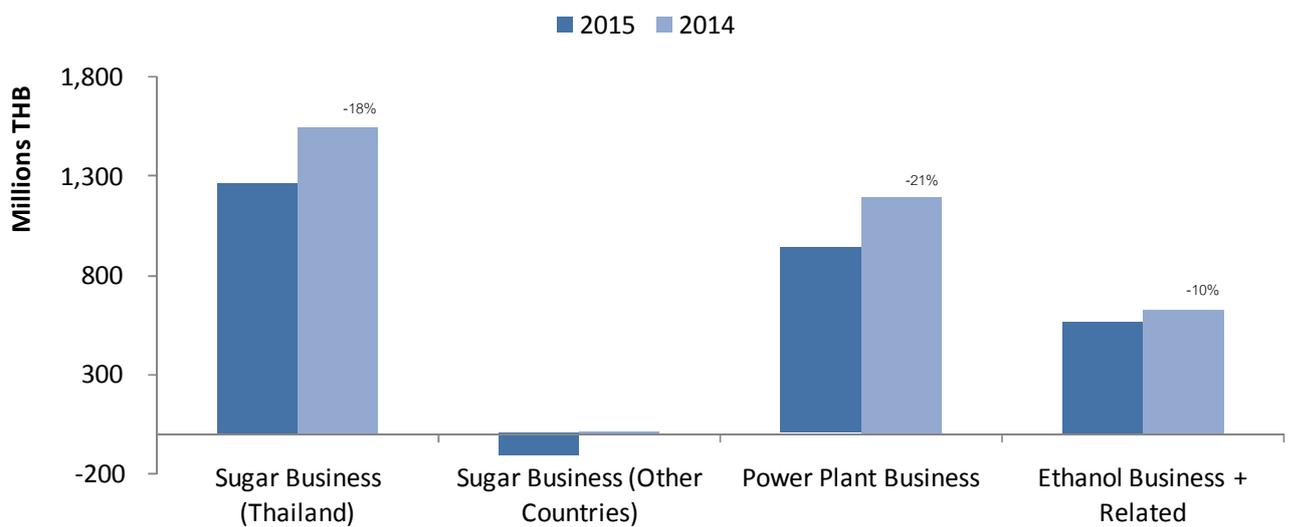
SUBJECT EXPLANATION FOR THE DECREASE IN NET PROFIT OF OVER 20 PERCENT FOR YEAR 2015  
COMPARED TO THE PREVIOUS YEAR

ATTENTION PRESIDENT, THE STOCK EXCHANGE OF THAILAND

Khon Kaen Sugar Industry Public Company Limited and its subsidiaries (“KSL”) would like to report our financial performance of year 2015 (November 2014 – October 2015). The Company recorded a net profit of THB 815 million this year compared to the net profit of THB 1,626 million in the previous year, representing a decrease of 50%.

By considering the operating profit before admin expense, interest and tax in each business sector, the company recorded 18% profit decrease in sugar business in Thailand, 21% profit decrease in power plant business sector, 10% profit decrease in ethanol and related business sector and recorded loss in sugar business in Laos and Cambodia. (shown in chart 1) The main reasons for the decrease in our performance were due to;

*Chart 1 : Operating Profit before admin expense, interest and tax in each business sector*



## Sugar Business in Thailand

In the second half of 2015, the world sugar price dropped to the lowest at 10.13 cent/lbs (As shown in Chart 2: World sugar price cents-lbs). As a result, the average selling price in the second half of 2015 lower than the first half of 2015 about 14% while cost of production was recorded, on average in a whole year. Therefore gross margin in sugar business decreased in the second half of the year. Moreover in the fourth quarter, sugar business incurred THB 128 million of FX losses.

Chart 2 : World sugar price – cents/lbs



Compared to the previous year, the performance of the sugar business in 2015 decreased due to the world sugar price dropped and average selling price declined. (Average selling price of refined / white sugar dropped from 16,525 THB/ton to 13,793 THB/ton and raw sugar fell from 13,189 THB/ton to 10,463 THB/ton). The main reasons for the decrease in sugar price were due to Brazilian Real currency depreciation that makes them gain competitive advantage (Brazil is the largest sugar exporter). Brazilian Real was depreciated 49%, from 2.66 BRL/USD in 2014 to 3.96 BRL/USD in 2015 (As shown in Chart 3 : BRL/USD Exchange Rate) which can be expected that the sugar mills in Brazil will use sugarcane to produce more sugar instead of producing ethanol for domestic consumption and induce speculator sell-off

sugar in the future market. Consequently, the world sugar price dropped dramatically to 10.13 cent/lbs in the second half of the year. (However, current forecast in 2016 expects that sugar balance will be deficit. Therefore sugar price has recovered back to level of 15 cent/lbs).

*Chart 3 : BRL/USD Exchange Rate*



Though, the sugarcane price is under 70:30 revenue sharing system that makes raw material cost (sugarcane) correlate to world sugar price but other cost of production did not decrease in the same proportion, so gross margin for sugar business in Thailand in 2015 dropped, as a result, the performance dropped, compare to the previous year.

Sugar business in Other Countries (Laos and Cambodia)

The performance decreased due to the world sugar price dropped. Most of the sugarcane crushed came from company own plantation which the plantation cost incurred 1 year in advanced (Sugarcane matures at 12-14 months). In 2015, because of the decrease in sugar price, the recorded cost exceeded the expected selling sugar price. As a result, the sugar business in Other Countries (Laos and Cambodia) incurred loss.

## Power Business

Power business performance decreased due to

- (1) In the fourth quarter of this year, the power plant in BoPloy, Kanchanaburi had a maintenance shutdown for 2 months which affected power sales to EGAT declined from 77,654 MW-hr in the fourth quarter 2014 to 41,431 MW-hr in the fourth quarter 2015. They caused the revenue decrease and the cost per unit increase from the maintenance cost, raw material cost and the fixed cost.
- (2) The company incurred more taxes since BOI privilege for the power plant in Nampong site, Khon Kaen, expired after 8 year operation
- (3) The average selling price to grid per unit decreased from 3,520 THB/MW-hr in 2014 to 3,368 THB/MW-hr in 2015

## Ethanol business and Related business

Ethanol business performance decreased due to decrease in production volume and ethanol cost per unit also increased since increasing molasses cost and waste water management cost. Although sales volume increased from 91.61 million liters to 97.12 million liters.

Overall, 2015 performance, the Company recorded a net profit of THB 815 million this year compared to the net profit of THB 1,626 million in the previous year, representing a decrease of 50%. In term of EBITDA, the Company recorded EBITDA of THB 3,129 million decreased from THB 3,972 million last year, representing 19% decrease.

Yours faithfully,

Mr. Chamroon Chinthammit  
President and Chief Executive Officer  
Khon Kaen Sugar Industry Public Company Limited