



**LANNA RESOURCES PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**



**FOR THE OPERATING RESULTS OF  
THE 1<sup>ST</sup> QUARTER 2015**



# LANNA RESOURCES PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

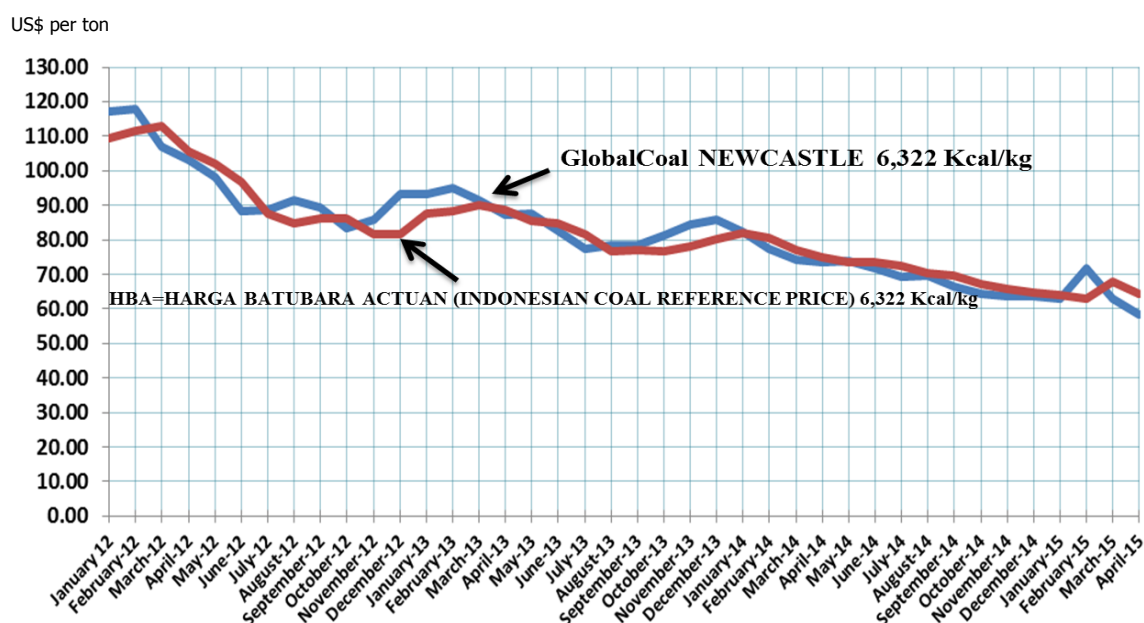
(For the Consolidated Financial Statements of the 1<sup>st</sup> Quarter 2015)

### OVERALL OPERATING RESULTS

The Company's revenue and net profit in the 1<sup>st</sup> quarter 2015 were Baht 2,898.21 million and Baht 120.59 million, respectively, which decreased from the same period last year by 13.59 and 44.43 percent. This is due to the decrease in revenue and net profit from coal business as a result of the continuous decrease of coal price. Meanwhile, the revenue from ethanol business increased in line with continuous increase in the domestic ethanol demand due to the termination of Gasoline 91 and promotion of the production of Gasohol E20 and E85 compatible automobiles by the government. The net profit from the ethanol business thus increased.

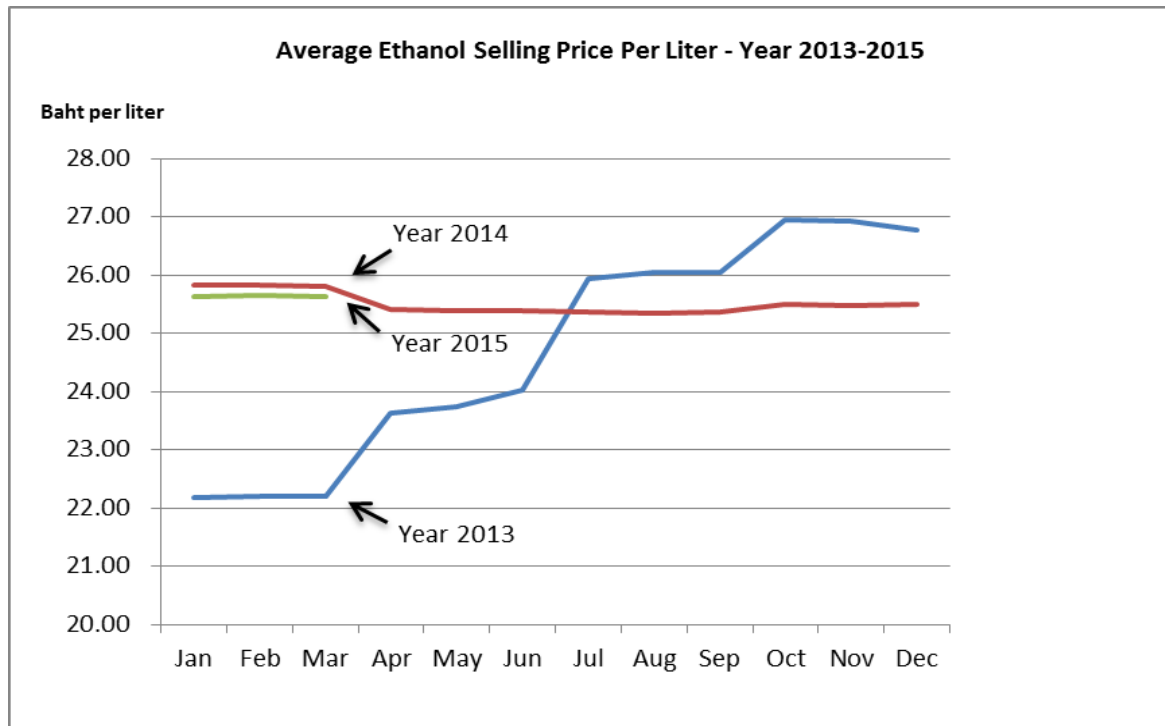
**COAL BUSINESS:** The global coal prices have been continuously decreasing since 2012. The Company still employs the same strategy by reducing mining cost and increasing production efficiency by decreasing the cost of coal winning, which is the major cost. The product mix is also carefully selected by choosing only those with high price and that highly profitable.

### GlobalCoal NEWCASTLE - HBA Index Year 2012-2015



In summary, as for the overall operating results of the coal business in the 1<sup>st</sup> quarter 2015, the revenue and net profit derived from shareholding proportion of the Company were Baht 2,195.76 million and Baht 46.43 million, which decreased from the same period last year by 17.36 percent and 32.01 percent, respectively, due to the decrease in coal selling price. Regardless, the coal business remains continuously profitable.

**ETHANOL BUSINESS:** The average ethanol selling price in the 1<sup>st</sup> quarter 2015 slightly decreased from the same period last year by 0.70 percent. However, the ethanol demand increased from 3.24 million liters per day at the end of year 2014 to 3.46 million liters per day in the 1<sup>st</sup> quarter 2015 as a result of the termination of Gasoline 91 and the promotion of the production of Gasohol E20 and E85 compatible automobiles by the government. Therefore, the demand for using ethanol as a mixture in gasohol has been increasing continuously.



In summary, as for the overall operating results of the ethanol business in the 1<sup>st</sup> quarter 2015, the revenue was Baht 693.76 million, which increased from the same period last year by 9.93 percent. The net profit derived from shareholding proportion of the Company were Baht 59.26 million which decreased from the same period last year by 22.52 percent. While the net profit of the ethanol business increased by 14.71 percent, but with the sale of the ordinary shares in Thai Agro Energy Public Co., Ltd. (TAE), a subsidiary company in ethanol business, according to the spin off plan in 2014, the shareholding proportion of the Company in TAE decreased from 75.75 to 51 percent of the paid-up capital, resulting in the decrease in the derived net profit.

## OPERATING RESULTS ANALYSIS

REVENUES	1st Quarter 2015		1st Quarter 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Coal Business	2,195.76	75.76	2,656.89	79.22	(461.13)	(17.36)
Revenue from Ethanol Business	693.76	23.94	631.11	18.82	62.65	9.93
Other Revenue	8.69	0.30	65.89	1.96	(57.20)	(86.81)
<b>Total Revenue</b>	<b>2,898.21</b>	<b>100.00</b>	<b>3,353.89</b>	<b>100.00</b>	<b>(455.68)</b>	<b>(13.59)</b>

**REVENUE:** The Company's revenue in the 1<sup>st</sup> quarter 2015 totaled Baht 2,898.21 million, which decreased from the same period last year by Baht 455.68 million or 13.59 percent due to the following reasons:

(1) Revenue from coal business in the 1<sup>st</sup> quarter 2015 was Baht 2,195.76 million, which decreased from the same period last year by Baht 461.13 million or 17.36 percent. This was due to decreases in coal sales volume and selling price of 7.99 percent and 10.18 percent, respectively, in line with downtrend of the global coal market.

(2) Revenue from ethanol business in the 1<sup>st</sup> quarter 2015 was Baht 693.76 million, which increased from the same period last year by Baht 62.65 million or 9.93 percent. This was due to the increase in ethanol sales volume of 10.71 percent in line with the continuously increase in demand for ethanol, despite a slight decrease in ethanol selling price of 0.70 percent.

(3) Other revenue in the 1<sup>st</sup> quarter 2015 was Baht 8.69 million, which decreased from the same period last year by Baht 57.20 million or 86.81 percent due to a decrease in foreign exchange gain.

Expenses	1st Quarter 2015		1st Quarter 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>Coal Business</b>						
Cost of Sales	1,504.21	68.51	1,716.14	64.59	(211.93)	(12.35)
Selling and Administrative Expenses	560.48	25.53	686.09	25.82	(125.61)	(18.31)
Financial Cost	4.94	0.22	2.00	0.08	2.94	147.00
Corporate Income Tax	63.63	2.90	104.87	3.95	(41.24)	(39.32)
<b>Ethanol Business</b>						
Cost of Sales	542.74	78.23	503.97	79.85	38.77	7.69
Selling and Administrative Expenses	9.80	1.41	10.03	1.59	(0.23)	(2.29)
Financial Cost	15.05	2.17	15.41	2.44	(0.36)	(2.34)
Corporate Income Tax	9.47	1.37	0.57	0.09	8.90	1,561.40

**COAL BUSINESS EXPENSES:** Coal business expenses in the 1<sup>st</sup> quarter 2015 totaled Baht 2,133.26 million, which decreased from the same period last year by Baht 375.84 million or 14.98 percent, due to the following reasons.

(1) Cost of coal sales in the 1<sup>st</sup> quarter 2015 decreased from the same period last year by Baht 211.93 million or 12.35 percent. This was due to a decrease in coal sales volume of 7.99 percent and a decrease in average coal selling price of 4.74 percent.

(2) Selling and administrative expenses in the 1<sup>st</sup> quarter 2015 decreased from the same period last year by Baht 125.61 million or 18.31 percent according to a decrease in coal sales volume.

(3) Financial cost in the 1<sup>st</sup> quarter 2015 increased from the same period last year by Baht 2.94 million. This was due to loan engaged by a subsidiary company in Indonesia for a purchase of jetty and hauling roads, resulting in an increase in interest expense.

(4) Corporate income tax in the 1<sup>st</sup> quarter 2015 decreased from the same period last year by Baht 41.24 million or 39.32 percent in line with the decrease in profit.

**ETHANOL BUSINESS EXPENSES:** Ethanol business expenses in the 1<sup>st</sup> quarter 2015 totaled Baht 577.06 million, which increased from the same period last year by Baht 47.08 million or 8.88 percent, due to the following reasons.

(1) Cost of ethanol sales in the 1<sup>st</sup> quarter 2015 increased from the same period last year by Baht 38.77 million or 7.69 percent. This was due to the increase in ethanol sales volume of 10.71 percent, despite the decrease in ethanol cost of sales of and 2.73 percent due to the increase in molasses (raw material) price, which is a major cost, from last year by 4.25 percent.

(2) Selling and administrative expenses in the 1<sup>st</sup> quarter 2015 slightly decreased from the same period last year by Baht 0.23 million or 2.29 percent.

(3) Financial expenses in the 1<sup>st</sup> quarter 2015 decreased from the same period last year by Baht 0.36 million or 2.34 percent due to loan repayment according to loan agreement terms.

(4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the 1<sup>st</sup> quarter 2015, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Investment Promotion for the Ethanol Production Line No.1 has been expired, with incurred corporate income tax of Baht 9.47 million in the 1<sup>st</sup> quarter 2015.

Gross Profit	Coal Business		Ethanol Business		Total	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>1<sup>st</sup> Quarter 2015</b>						
Revenues from Sales	2,195.76	100.00	693.76	100.00	2,889.52	100.00
<b>Less</b> Cost of Sales	1,504.21	68.51	542.74	78.23	2,046.95	70.84
<b>Gross Profit</b>	<b>691.55</b>	<b>31.49</b>	<b>151.02</b>	<b>21.77</b>	<b>842.57</b>	<b>29.16</b>
<b>1<sup>st</sup> Quarter 2014</b>						
Revenues from Sales	2,656.89	100.00	631.11	100.00	3,288.00	100.00
<b>Less</b> Cost of Sales	1,716.14	64.59	503.97	79.85	2,220.11	67.52
<b>Gross Profit</b>	<b>940.75</b>	<b>35.41</b>	<b>127.14</b>	<b>20.15</b>	<b>1,067.89</b>	<b>32.48</b>

**GROSS PROFIT:** The Company's gross profit in the 1<sup>st</sup> quarter 2015 was Baht 842.57 million, or 29.16 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,067.89 million or 32.48 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(1) Gross profit margin from coal business in the 1<sup>st</sup> quarter 2015 was 31.49 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 35.41 percent of the sales revenue. This was due to the decrease in coal sales price as described above.

(2) Gross profit margin from the ethanol business in the 1<sup>st</sup> quarter 2015 was 21.77 percent of the sales revenue, which increased from the same period last year with gross profit margin of 20.15 percent of the sales revenue. This was due to the decrease the average ethanol cost of sale as described above.

Net Profit	1 <sup>st</sup> Quarter 2015		1 <sup>st</sup> Quarter 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Profit from Coal Business	46.43	38.50	68.29	31.47	(21.86)	(32.01)
Profit form Ethanol Business	59.26	49.14	76.48	35.24	(17.22)	(22.52)
Other revenues and share of income from investment in associate company	14.90	12.36	72.24	33.29	(57.34)	(79.37)
<b>Net Profit</b>	<b>120.59</b>	<b>100.00</b>	<b>217.01</b>	<b>100.00</b>	<b>(96.42)</b>	<b>(44.43)</b>
<b>Net Earnings per Share – Baht per Share</b>	<b>0.23</b>		<b>0.41</b>		<b>(0.18)</b>	<b>(44.43)</b>

**NET PROFIT:** The Company's net profit in the 1<sup>st</sup> quarter 2015 was Baht 120.59 million, or net earnings of Baht 0.23 per share. When compared with the same period last year, the net profit decreased by 44.43 percent due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company in the 1<sup>st</sup> quarter 2015 was Baht 46.43 million or 38.50 percent of the total net profit, which decreased from the same period last year by 21.86 percent or 32.01 percent. This was due to the decrease in coal sales volume and selling price as described above.

(2) Net profit from ethanol business derived from shareholding proportion of the Company in the 1<sup>st</sup> quarter 2015 was Baht 59.26 million or 49.14 percent of the total net profit, which decreased from the same period last year by 17.22 million or 22.52 percent. While the net profit of the ethanol business increased by 14.71 percent, the shareholding proportion of the Company in the subsidiary company conducting the ethanol business had decreased from 75.75 percent to 51 percent of paid-up capital, resulting in the decrease in net profit from ethanol business as described above.

(3) Net other revenues and share of income from investment in the associate company in the 1<sup>st</sup> quarter 2015 was Baht 14.90 million or 12.36 percent of the total net profit, which decreased from the same period last year by 57.34 million or 79.37 percent mostly due to the decrease in foreign exchange gain as described above.

### **EARNINGS EFFICIENCY**

The abovementioned decrease in the net profit in the 1<sup>st</sup> quarter 2015 results in a decrease in the earnings efficiency of the Company as follows:

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 1<sup>st</sup> quarter 2015 was Baht 462.81 million, which decreased from the same period last year by 27.83 percent.

(2) The Company's EBITDA margin in the 1<sup>st</sup> quarter 2015 was at 15.88 percent of the total revenues. When compared with the EBITDA margin of the same period last year of 19.12 percent, the EBITDA margin slightly decreased by 16.94.

(3) The Company's net profit margin in the 1<sup>st</sup> quarter 2015 was at 6.66 percent, which decreased from the same period last year of 9.58 percent by 30.45 percent.

(4) The Company's return on equity in the 1<sup>st</sup> quarter 2015 was at 2.85 percent, which decreased from the same period last year of 5.29 percent by 46.16 percent.

(5) The Company's return on total assets and return on fixed assets in the 1<sup>st</sup> quarter 2015 were at 2.18 percent and 10.86 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 3.64 percent and 15.71 percent, they decreased by 40.06 percent and 30.85 percent, respectively. The asset turnover ratio was at 0.33 times, which decreased from the same period last year by 13.81 percent.

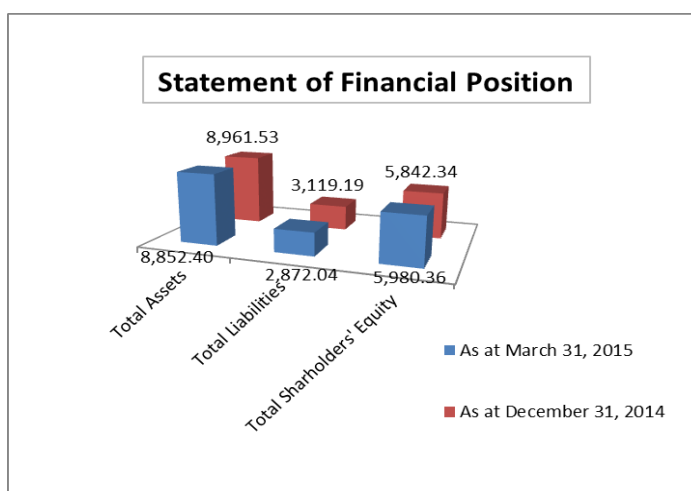
## STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at March 31, 2015	As at December 31, 2014	Million Baht	%
Total Assets	8,852.40	8,961.53	(109.13)	(1.22)
Total Liabilities	2,872.04	3,119.19	(247.15)	(7.92)
Total Shareholders' Equity	5,980.36	5,842.34	138.02	2.36
<b>Book Value-Baht per Share</b>	<b>8.16</b>	<b>7.97</b>	<b>0.19</b>	<b>2.38</b>

**Remark:** Registered par value of Baht 1 per share

**ASSETS:** The Company's total assets as at March 31, 2015 decreased from the end of 2014 by Baht 109.13 million or a decrease of 1.22 percent, consisting of:

(1) Current assets decreased from the end of 2014 by Baht 6.94 million or a decrease of 0.15 percent, due to (A) cash and cash equivalent increased from the end of 2014 by Baht 261.43 million or an increase of 21.53 percent; (B) trade accounts receivable and other accounts receivable increased from the end of 2014 by Baht 107.16 million or an increase of 14.80 percent; (C) inventories increased from the end of 2014 by Baht 265.78 million or an increase of 47.10 percent, most of which were finished coal and a reserve of purchased molasses for 2015; and (D) other current assets, most of which were advance payment of corporate income tax and advance payment of goods, etc., decreased from the end of 2014 by Baht 641.31 million or 31.04 percent.



(2) Non-current assets decreased from the end of 2014 by Baht 102.19 million or a decrease of 2.33 percent, due to a decrease in written-off expenses.

**LIABILITIES:** The Company's total liabilities as at March 31, 2015 decreased from the end of 2014 by Baht 247.15 million or a decrease of 7.92 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from the end of 2014 by Baht 166.41 million or an increase of 35.96 percent

(2) Short term and long term loans decreased from the end of 2014 by Baht 391.91 million or 21.12 percent due to loan repayment by subsidiary companies.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., decreased from the end of 2014 by Baht 17.31 million or 3.40 percent.

(4) Other liabilities, most of which are provision for mine rehabilitation and allowance for long-term benefits of employees, etc., decreased from the end of 2014 by Baht 4.34 million or 1.49 percent.

**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company as at March 31, 2015 increased from the end of 2014 by Baht 138.02 million or 2.36 percent, resulting in an increase of the share's book value from Baht 7.97 per share to Baht 8.16 per share. This was due to an increase in net profit of Baht 120.59 million, a net decrease in translation adjustment in financial statement and other items of Baht 20.53 million, and an increase of minority shareholders of Baht 37.96 million

Cash Flows	(Unit: Million Baht)	
	1 <sup>st</sup> Quarter 2015	1 <sup>st</sup> Quarter 2014
Cash Flows from (used in) Operating Activities	671.31	530.29
Cash Flows from (used in) Investing Activities	(117.25)	(362.53)
Cash Flows from (used in) Financing Activities	(310.72)	(256.79)
Translation Adjustments in Financial Statements	5.38	15.84
Net Increase (Decrease) in Cash	248.72	(73.19)
Cash at the beginning of the period	446.92	822.02
<b>Cash at the end of the period</b>	<b>695.64</b>	<b>748.83</b>

## CASH FLOWS

(1) The Company's net cash from operating activities in the 1<sup>st</sup> quarter 2015 was Baht 671.31 million, consisting of: (A) income before corporate income tax and interest expense of Baht 267.21 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 232.22 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 203.07 million due to a decrease in other current assets; (D) an increase in operating liabilities of Baht 11.06 million due to an increase in trade accounts payable, and (E) an increase in interest income of Baht 3.84 million, but with an increase in interest expense and taxes of Baht 46.09 million.

(2) The Company's net cash for an investment activities in the 1<sup>st</sup> quarter 2015 was Baht 117.25 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 21.35 million, most of which were constructions of molasses storage tanks and a biogas power plant; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 82.10 million; and (C) short-term cash investment and other items which increased by a total of Baht 13.80 million.

(3) The Company's net cash used in financing activities in the 1<sup>st</sup> quarter 2015 was Baht 310.72 million, including (A) a decrease in loan of Baht 275.39 million, (B) dividend payment of Baht 23.45 million, and (C) a decrease in minority shareholders' equity of Baht 11.88 million.

## ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at March 31, 2015 were 9.39 percent of total asset. 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 experienced very little bad debt and has not found any unusual transaction in the 1<sup>st</sup> quarter 2015 and therefore, there was no provision for doubtful debt in the 1<sup>st</sup> quarter 2015.

(2) Inventory as at March 31, 2015 was 9.38 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 the 1<sup>st</sup> quarter 2015.

(3) Goodwill from investment in the subsidiary company in Indonesia as at March 31, 2015 is accounted for 2.10 percent of total asset, of which the Company has considered financial projection and impact and found that that such subsidiary company could still be profitable and therefore there was no establishment of allowance for goodwill impairment from investment in the 1<sup>st</sup> quarter 2015.



## **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The Company's total debt to equity ratio as at March 31, 2015 was as low as 0.48 to 1. By having appropriate capital structure, the Company should still be able to borrow additional capital for future investment projects as the interest coverage ratio in the 1<sup>st</sup> quarter 2015 is as high as 23.16 times. Therefore, the Company should not have any problem concerning with default of interest payment.

(2) The Company's current ratio and quick ratio as at March 31, 2015 were at 2.16 times and 1.09 times, respectively. The Company and its subsidiary companies still have adequate credit line for working capital in the future.

(3) The Company's cash cycle in the 1<sup>st</sup> quarter 2015 was at 32 days, an increase from the same period last year of 10 days. The average debt collection period was at 24 days, a decrease from the same period last year of 1 day. The average inventory turnover was at 30 days, an increase from the same period last year of 4 days. However, the average debt repayment period was at 22 days or a decrease from the same period last year of 7 days, which is still within normal standard.

(4) Investment in coal business is during downtrend period according to economic crisis and falling coal prices and therefore, the Company has reviewed its investment plan in the new coal concessions by delaying additional investment and waiting for appropriate time and opportunity for new investment. Nonetheless, the Company should have no problem as there are still remaining coal reserves in both coal concessions in Indonesia which can still produce coal for several more years.

(5) As for investment in the ethanol business in 2015, raw granulated sugar conveying and dissolving system was being installed in the ethanol production line no. 2 with net investment of Baht 7 million. The installation should be complete in the 2<sup>nd</sup> quarter 2015, further reducing the cost of ethanol production in 2015. The source of investment was from cash generation from operating activities.

## **DEBT OBLIGATION**

Thai Agro Energy Public Co., Ltd. (TAE) is a subsidiary company in a business of ethanol production and distribution for fuel purpose, having obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows.

(1) TAE 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 times until the expiration of the loan agreement. TAE is 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 the Company 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, the Company 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 TAE can accrue more debts. Currently, TAE has adequate credit line for its working capital for business operation.

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

## **IMPACT TO FUTURE OPERATIONS**

**Coal Business:** It is expected that coal prices in 2015 will continue to move in a low price level as there is still excess supply of coal. Accordingly, the Company has set out a strategy to reduce the production and distribution cost in line with the reduction of coal prices. At the same time, the Company has reviewed its investment plan in the new coal concessions by delaying the investment and waiting for appropriate time and opportunity. At least one coal mine acquisition is expected within 2015. Moreover, the Company is currently studying coal fired power plant projects in Thailand and Indonesia. The Company and its subsidiary companies have capability to invest in such projects having its own coal mine concessions. Not only the production and coal sales will be improved, the power plant projects should also yield a good return, generating more revenue and profit in the future.

**Ethanol Business:** Ethanol selling price in 2015 should not be lower than in 2014. It is expected that sugarcane yield in 2015 will be lower than in 2014, which will result in higher molasses price. Accordingly in the 2<sup>nd</sup> quarter 2015, TAE has started using raw granulated sugar as a raw material in conjunction with molasses in order to increase its raw material supply for ethanol production and maintain good profitability similar to the past year 2014. Additionally, a study on a production of high-test molasses as a raw material for ethanol production is being conducted in order to ensure secured supply of raw material, allowing better lower ethanol production cost in the future.

Regardless, the Company and the subsidiary companies can still be profitable from both businesses in 2015 by putting emphasis on cost and expense reduction strategy. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence to ensure good operating results in 2015 and proceed with regular dividend payment as planned.

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