



**LANNA RESOURCES PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

---

**FOR THE OPERATING RESULTS OF  
THE 3RD QUARTER 2014  
AND THE FIRST 9-MONTH PERIOD OF 2014**

---

# LANNA RESOURCES PUBLIC COMPANY LIMITED

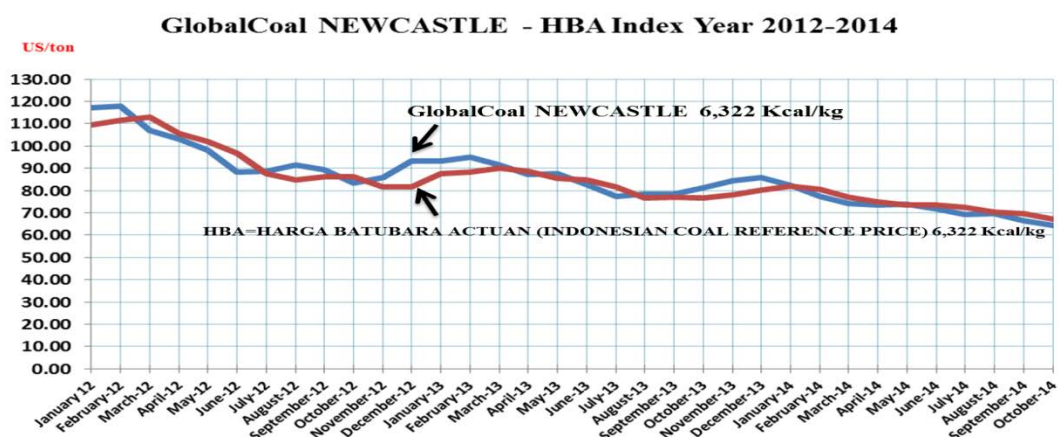
## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3<sup>rd</sup> Quarter 2014  
and the First 9-Month Period of 2014)

### OVERALL OPERATING RESULTS

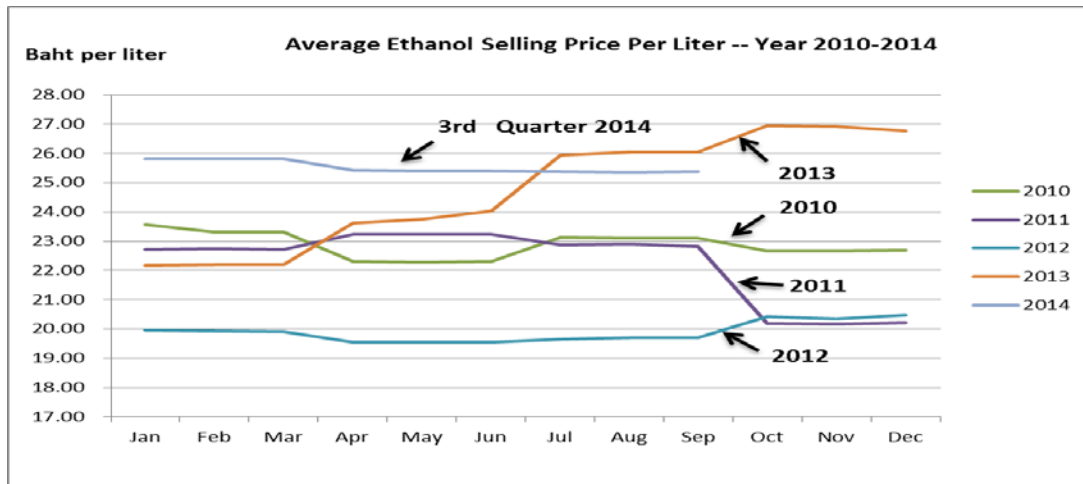
The Company's revenue in the 3<sup>rd</sup> quarter 2014 were Baht 2,676.09 million, which decreased from the same period last year by 16.62 percent, but the revenue in the first 9-month period of 2014 were Baht 9,481.69 million, which increased from the same period last year by 6.21 percent. The net profit in the 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014 were Baht 52.18 million and Baht 365.80 million, which decreased from the same period last year by 44.75 percent and 16.77 percent, respectively. This is due to the continuous decrease of coal selling price. Meanwhile, the revenue from ethanol business increased due to an increase in ethanol sales volume in line with an increase domestic ethanol demand from the termination of Gasoline 91 and the promotion of production of automobiles that use Gasohol E20 and E85 by the government. The net profit from ethanol business thus increased significantly.

- **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.



In summary, as for the overall operating results of the coal business, the revenue in the 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014 were Baht 1,976.38 million and Baht 7,533.98 million, which decreased from the same period last year by 28.40 percent and 1.52 percent, respectively, due to the a decrease in coal selling price. Thus, the net profit calculated from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014 were only Baht 17.68 million and Baht 171.60 million, which decreased from the same period last year by 70.04 and 47.61 percent, respectively. Regardless, despite the lower operating results of the coal business, it remains continuously profitable.

- ETHANOL BUSINESS:** The average ethanol selling price in the 3<sup>rd</sup> quarter 2014 slightly decreased by 2.46 percent when compared with the same period last year, but the ethanol price in the first 9-month period of 2014 increased from the same period last year by 6.47 percent. Also, the average domestic demand of ethanol increased from 2.57 million liters per day in late 2013 to 3.37 million liters per day in September 2014. This was due to the termination of Gasoline 91 and the promotion of the production of automobiles that use Gasohol E20 and E85 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, the revenue in the 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014 were Baht 688 million and Baht 1,920.03 million, which increased from the same period last year by 55.35 and 53.22 percent, respectively. The net profit calculated from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2014 were Baht 17.73 million, which decreased from the same period last year by 34.41 percent due to a decrease in shareholding proportion, from 75.75 percent to 51 percent, due to the spin-off plan (details in the next paragraph). The net profit calculated based on shareholding proportion of the Company in the first 9-month period of 2014 was Baht 150.94 million, which increased from the same period last year by 91.23 percent due to the increase in ethanol sales volume and selling price.

The Meeting of the Board of Directors has approved the spin-off plan for the listing of Thai Agro Energy Public Co., Ltd. ("TAE"), a subsidiary company with business in production and distribution of ethanol for fuel, in the Stock Exchange of Thailand by offering newly issued ordinary shares of TAE in the amount of 200,000,000 shares and selling of the existing ordinary shares of TAE held by Lanna of 96,037,733 shares, for a total amount of 296,037,733 shares. The initial public offering totaled 191,000,000 shares or 64.52 percent of the offered shares and 105,037,733 shares or 35.48 percent of the offered shares were offered to the existing shareholders of Lanna based on their shareholding portions (Pre-emptive Right) at the subscription ratio of 5 common shares in Lanna to 1 new common share in TAE with the offering price equal to the price offering to the public at Baht 2 per share. The objective was to raise fund required for improvement on the production and the distribution of ethanol and also for the working capital in the future. Accordingly, the selling of ordinary shares has been completed, and the revenue from the selling of ordinary shares in TAE was received on June 2, 2014. Accordingly, the Company has recognized the profit from the selling of ordinary shares in TAE of Baht 90.27 million in the separate financial statement. However, the shareholding proportion of Lanna in TAE has reduced from 75.75 percent to 51 percent of the paid-up capital. Regardless, TAE still remains a subsidiary company of Lanna. Ordinary shares of TAE has started being traded in the Stock Exchange of Thailand since June 5, 2014.

## OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarters			Increase (Decrease)		9-Month Period (Jan – Sep)		Increase (Decrease) (%)
	2/2014	3/2014	3/2013	YoY (%)	QoQ (%)	2014	2013	
Revenue from Coal Sales	2,900.72	1,976.38	2,760.25	(28.40)	(31.87)	7,533.98	7,650.34	(1.52)
Revenue from Ethanol Sales	600.92	688.00	442.88	55.35	14.49	1,920.03	1,253.15	53.22
Other Revenue	8.81	11.71	6.43	82.12	32.92	27.68	23.98	15.43
<b>Total Revenues</b>	<b>3,510.45</b>	<b>2,676.09</b>	<b>3,209.56</b>	<b>(16.62)</b>	<b>(23.77)</b>	<b>9,481.69</b>	<b>8,927.47</b>	<b>6.21</b>

### REVENUE

(1) The Company's total revenue in the 3<sup>rd</sup> quarter 2014 totaled Baht 2,676.09 million, which decreased from the same period last year by Baht 533.47 million or 16.62 percent due to the following reasons.

(1.1) Revenue from coal business in the 3<sup>rd</sup> quarter 2014 totaled Baht 1,976.38 million, which decreased from the same period last year by Baht 783.87 million or 28.40 percent. This was due to decreases in coal sales volume and selling price of 20.83 percent and 9.55 percent, respectively.

(1.2) Revenue from ethanol business in the 3<sup>rd</sup> quarter 2014 totaled Baht 688 million, which increased from the same period last year by Baht 245.12 million or 55.35 percent. This was due to an increase in ethanol sales volume of 59 percent, but the ethanol selling price slightly decreased by 2.46 percent.

(1.3) Other revenue in the 3<sup>rd</sup> quarter 2014 totaled Baht 11.71 million, which increased from the same period last year by Baht 5.28 million or 82.12 percent due to an increase in interest income and profit from sale of unit trust.

(2) The Company's total revenue in the first 9-month period of 2014 totaled Baht 9,481.69 million, which increased from the same period last year by Baht 554.22 million or 6.21 percent due to the following reasons.

(2.1) Revenue from coal business in the first 9-month period of 2014 totaled Baht 7,533.98 million, which decreased from the same period last year by Baht 116.36 million or 1.52 percent. This was due to a decrease in coal selling price of 3.39 percent, but the coal sales volume slightly increased by 1.94 percent.

(2.2) Revenue from ethanol business in the first 9-month period of 2014 totaled Baht 1,920.03 million, which increased from the same period last year by Baht 666.88 million or 53.22 percent. This was due to increases in ethanol sales volume and selling price by 44.76 and 6.47 percent, respectively.

(2.3) Other revenue in the first 9-month period of 2014 totaled Baht 27.68 million, which increased from the same period last year by Baht 3.70 million or 15.43 percent due to an increase in interest income and profit from sale of unit trust.

Expenses (Unit: Million Baht)	Quarters			Increase (Decrease)		9-Month Period (Jan – Sep)		Increase (Decrease) (%)
	2/2014	3/2014	3/2013	YoY (%)	QoQ (%)	2014	2013	
<b>Coal Business</b>								
Cost of sales	1,895.40	1,387.49	1,807.12	(23.22)	(26.80)	5,009.59	4,804.74	4.26
Selling and administrative expenses	844.86	566.35	852.89	(33.60)	(32.97)	2,039.76	2,135.49	(4.48)
Financial cost	1.33	0.44	0.01	4,300.00	(66.92)	3.77	0.17	2,117.65
Corporate income tax	77.96	6.72	23.27	(71.12)	(91.38)	182.38	206.06	(11.49)
<b>Ethanol Business</b>								
Cost of sales	513.33	626.16	374.80	67.07	21.98	1,643.46	1,049.29	56.63
Selling and administrative expenses	13.58	9.64	18.43	(47.69)	(29.01)	33.25	58.49	(43.15)
Financial cost	15.36	12.45	15.12	(17.66)	(18.95)	43.21	43.30	(0.21)
Corporate income tax	4.09	3.67	(1.24)	n/a	(10.27)	8.34	(2.34)	n/a

### EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 3<sup>rd</sup> quarter 2014 totaled Baht 1,961 million, which decreased from the same period last year by Baht 722.29 million or 26.92 percent, due to the following reasons.

(1.1) Cost of coal sales in the 3<sup>rd</sup> quarter 2014 decreased from the same period last year by Baht 419.63 million or 23.22 percent. This was due to decreases in coal sales volume of 20.83 percent.

(1.2) Selling and administrative expenses in the 3<sup>rd</sup> quarter 2014 decreased from the same period last year by Baht 286.54 million or 33.60 percent according to the decrease in coal sales volume.

(1.3) Financial cost in the 3<sup>rd</sup> quarter 2014 increased from the same period last year by Baht 0.43 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.

(1.4) Corporate income in the 3<sup>rd</sup> quarter 2014 decreased from the same period last year by Baht 16.55 percent or 71.12 percent in line with the decrease in profit.

(2) Expenses from coal business in the first 9-month period of 2014 totaled Baht 7,235.50 million, which increased from the same period last year by Baht 89.04 million or 1.25 percent, due to the following reasons.

(2.1) Cost of coal sales in the first 9-month period of 2014 increased from the same period last year by Baht 204.85 million or 4.26 percent. This was due to increases in coal sales volume and cost of coal sales of 1.94 and 2.28 percent, respectively.

(2.2) Selling and administrative expenses in the first 9-month period of 2014 period decreased from the same period last year by Baht 95.73 million or 4.48 percent according to the decrease in foreign exchange loss.

(2.3) Financial cost in the first 9-month period of 2014 increased from the same period last year by Baht 3.60 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.

(2.4) Corporate income in the first 9-month period of 2014 decreased from the same period last year by Baht 23.68 million or 11.49 percent.

## EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 3<sup>rd</sup> quarter 2014 totaled Baht 651.92 million, which increased from the same period last year by 244.81 percent or 59.95 percent, due to the following reasons.

(1.1) Cost of ethanol sales in the 3<sup>rd</sup> quarter 2014 increased from the same period last year by Baht 251.36 million or 67.07 percent. This was due to increases in ethanol sales volume and cost of sales of 59 and 5.07 percent, respectively, due to the increase in molasses (raw material) price, which is a major cost, from the same period last year by 4.27 percent.

(1.2) Selling and administrative expenses in the 3<sup>rd</sup> quarter 2014 decreased from the same period last year by Baht 8.79 million or 47.69 percent. This was due to the cost of the Ethanol Production Line No. 1, which had had a temporary shutdown for repairs and maintenance in the 3<sup>rd</sup> quarter 2013 but resumed its normal operation in the 3<sup>rd</sup> quarter 2014.

(1.3) Financial expenses in the 3<sup>rd</sup> quarter 2014 decreased from the same period last year by Baht 2.67 million or 17.66 percent due to partial loan repayment.

(1.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the 3<sup>rd</sup> quarter 2014, 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 an increase corporate income tax of Baht 4.91 million for the period.

(2) Expenses from ethanol business in the first 9-month period of 2014 totaled Baht 1,728.26 million, which increased from the same period last year by 579.52 million or 50.35 percent, due to the following reasons.

(2.1) Cost of ethanol sales in the first 9-month period of 2014 increased from the same period last year by Baht 594.17 million or 56.63 percent. This was due to increases in ethanol sales volume and cost of sales of 44.76 and 8.97 percent, respectively, due to the increase in molasses (raw material) price, which is a major cost, from the same period last year by 9.08 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2014 decreased from the same period last year by Baht 25.24 million or 43.15 percent. This was due to the cost of the Ethanol Production Line No. 1, which had had a temporary shutdown for repairs and maintenance in the 3<sup>rd</sup> quarter 2013 but resumed its normal operation in the 3<sup>rd</sup> quarter 2014.

(2.3) Financial expenses in the first 9-month period of 2014 decreased from the same period last year by Baht 0.09 million or 0.21 percent.

(2.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the first 9-month period of 2014, 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 an increase corporate income tax of Baht 10.68 million for the period.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>3<sup>rd</sup> Quarter (July - September)</b>						
<u>Year 2014</u>						
Revenues from sales	1,976.38	100.00	688.00	100.00	2,664.38	100.00
<u>Less</u> Cost of sales	1,387.49	70.20	626.16	91.01	2,013.65	75.58
<b>Gross Profit</b>	<b>588.89</b>	<b>29.80</b>	<b>61.84</b>	<b>8.99</b>	<b>650.73</b>	<b>24.42</b>
<u>Year 2013</u>						
Revenues from sales	2,760.25	100.00	442.88	100.00	3,203.13	100.00
<u>Less</u> Cost of sales	1,807.12	65.47	374.80	84.63	2,181.92	68.12
<b>Gross Profit</b>	<b>953.13</b>	<b>34.53</b>	<b>68.08</b>	<b>15.37</b>	<b>1,021.21</b>	<b>31.88</b>
<b>9-Month Period (January – September)</b>						
<u>Year 2014</u>						
Revenues from sales	7,533.98	100.00	1,920.03	100.00	9,454.01	100.00
<u>Less</u> Cost of sales	5,009.59	66.49	1,643.46	85.60	6,653.05	70.37
<b>Gross Profit</b>	<b>2,524.39</b>	<b>33.51</b>	<b>276.57</b>	<b>14.40</b>	<b>2,800.96</b>	<b>29.63</b>
<u>Year 2013</u>						
Revenues from sales	7,650.34	100.00	1,253.15	100.00	8,903.49	100.00
<u>Less</u> Cost of sales	4,804.74	62.80	1,049.29	83.73	5,854.03	65.75
<b>Gross Profit</b>	<b>2,845.60</b>	<b>37.20</b>	<b>203.86</b>	<b>16.27</b>	<b>3,049.46</b>	<b>34.25</b>

## GROSS PROFIT

(1) The Company's gross profit in the 3<sup>rd</sup> quarter 2014 was Baht 650.73 million, or gross profit margin of 24.42 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,021.21 million or gross profit margin of 31.88 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1.1) Gross profit margin from coal business in the 3<sup>rd</sup> quarter 2014 was 29.80 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 34.53 of the sales revenue. This was due to the decrease in coal sales price as described above.

(1.2) Gross profit margin from the ethanol business in the 3<sup>rd</sup> quarter 2014 was 8.99 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 15.37 percent of the sales revenue. This was due to the increase in molasses (raw material) price as described above.

(2) The Company's gross profit in the first 9-month period of 2014 was Baht 2,800.96 million or gross profit margin of 29.63 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 3,049.46 million or gross profit margin of 34.25 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 9-month period of 2014 was 33.51 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 37.20 percent of the sales revenue. This was due to the decrease in coal sales price, but the cost of coal sales increased as described above.

(2.2) Gross profit margin from the ethanol business in the first 9-month period of 2014 was 14.40 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 16.27 percent of the sales revenue. This was due to the increase in cost of ethanol sales more than the increase in ethanol selling price as described above.

Net Profit (Unit: Million Baht)	Quarters			Increase (Decrease)		9-Month Period (Jan-Sep)		Increase (Decrease) (%)
	2/2014	3/2014	3/2013	YoY (%)	QoQ (%)	2014	2013	
Profit from Coal Business	47.22	17.68	59.02	(70.04)	(62.56)	171.60	327.54	(47.61)
Profit from Ethanol Business	38.38	17.73	27.03	(34.41)	(53.80)	150.94	78.93	91.23
Share of income from investment in associate company and other revenue	12.98	16.77	8.39	99.88	29.20	43.26	33.01	31.05
<b>Net Profit</b>	<b>98.58</b>	<b>52.18</b>	<b>94.44</b>	<b>(44.75)</b>	<b>(47.07)</b>	<b>365.80</b>	<b>439.48</b>	<b>(16.77)</b>
<b>Net Earnings per Share -Baht per Share</b>	<b>0.19</b>	<b>0.10</b>	<b>0.18</b>	<b>(44.75)</b>	<b>(47.07)</b>	<b>0.70</b>	<b>0.84</b>	<b>(16.77)</b>

## NET PROFIT

(1) The Company's net profit in the 3<sup>rd</sup> quarter 2014 was Baht 52.18 million, or net earnings of Baht 0.10 per share. When compared with the same period last year, the net profit decreased by 44.75 percent due to the following reasons.

(1.1) Net profit from coal business derived from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2014 was Baht 17.68 million or 33.88 percent of the total net profit, which decreased from the same period last year by 70.04 percent. This was due to the decreases in coal sales volume and selling price as described above.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2014 was Baht 17.73 million or 33.98 percent of the total net profit, which decreased from the same period last year by 34.41 percent. This was due to the decrease in shareholding of the Company from 75.75 percent to 51 percent according to the spin-off plan as described above.

(1.3) Net share of income from investment in the associate company and other revenues in the 3<sup>rd</sup> quarter 2014 was Baht 16.77 million or 32.14 percent of the total net profit, which increased from the same period last year by 99.88 percent due to the increase in interest income and the sale of unit trust as described above.

(2) The Company's net profit in the first 9-month period of 2014 was Baht 365.80 million, or net earnings of Baht 0.70 per share. When compared with the same period last year, the net profit decreased by 16.77 percent due to the following reasons.

(2.1) Net profit from coal business derived from shareholding proportion of the Company in the first 9-month period of 2014 was Baht 171.60 million or 46.91 percent of the total net profit, which decreased from the same period last year by 47.61 percent. This was due to the decrease in coal selling price and the increase in cost of coal sales as described above.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company in the first 9-month period of 2014 was Baht 150.94 million or 41.26 percent of the total net profit, which increased from the same period last year by 91.23 percent, due to the increase in ethanol sales volume and selling price as described above.

(2.3) Net share of income from investment in the associate company and other revenues in the first 9-month period of 2014 was Baht 43.26 million or 11.83 percent of the total net profit, which increased from the same period last year by 31.05 percent due to the increase in interest income and the sale of unit trust as described above.

## EBITDA AND EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2014 was Baht 981.52 million, which is slightly decreased from the same period last year by 7.99 percent due to the decrease in profit.



(2) The Company's EBITDA margin in the first 9-month period of 2014 was at 10.35 percent of the total revenues, which is decreased from the same period last year of 11.95 percent by 13.37 percent due to the decrease in EBITDA as described in (1) above.

### EARNINGS EFFICIENCY

The abovementioned decrease in the net profit results in a decrease in the earnings efficiency of the Company as follows.

(1) The Company's net profit margin in the first 9-month period of 2014 was at 5.63 percent, which decreased from the same period last year of 7.18 percent by 21.67 percent.

(2) The Company's return on equity in the first 9-month period of 2014 was at 8.90 percent. When compared with the same period last year with the average return on equity of 11.50 percent, it decreased by 22.58 percent.

(3) The Company's return on total assets and return on fixed assets in the first 9-month period of 2014 were at 6.11 percent and 20.14 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 7.99 percent and 26.07 percent, they decreased by 23.59 percent and 22.73 percent, respectively. The asset turnover ratio was at 1.09 times, which decreased from the same period last year by 2.40 percent.

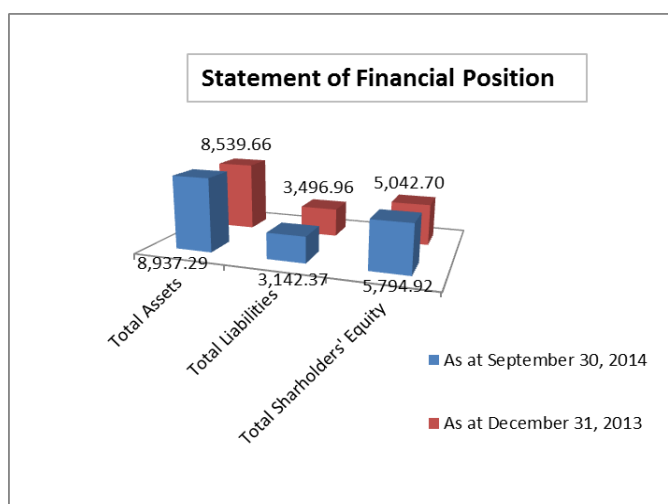
### STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at September 30, 2014	As at December 31, 2013	Million Baht	%
Total Assets	8,937.29	8,539.66	397.63	4.66
Total Liabilities	3,142.37	3,496.96	(354.59)	(10.14)
Total Shareholders' Equity	5,794.92	5,042.70	752.22	14.92
<b>Book Value-Baht per Share</b>	<b>8.03</b>	<b>7.63</b>	<b>0.40</b>	<b>5.24</b>

Remark: Registered par value of Baht 1 per share

**ASSETS:** The Company's total assets as at September 30, 2014 increased from the end of 2013 by Baht 397.63 million or an increase of 4.66 percent, consisting of:

(1) Current assets increased from the end of 2013 by Baht 283.37 million or an increase of 6.41 percent, due to (A) cash and cash equivalent increased from the end of 2013 by Baht 209.60 million or an increase of 17.44 percent; (B) trade accounts receivable and other accounts receivable decreased from the end of 2013 by Baht 131.25 million or a decrease of 15.19 percent; (C) inventories increased from the end of 2013 by Baht 652.85 million or an increase of 151.65 percent, most of which were finished coal and reserved or purchased molasses for the 4<sup>th</sup> quarter 2014; and (D) other current assets decreased from the end of 2013 by Baht 447.83 million or a decrease of 23.31 percent, most of which were advance payment of corporate income tax and advance payment of goods.



(2) Non-current assets increased from the end of 2013 by Baht 114.26 million or a slight increase of 2.77 percent, most of which were constructions of molasses storage tank and biogas power plant of a subsidiary company.

**LIABILITIES:** The Company's total liabilities as at September 30, 2014 decreased from the end of 2013 by Baht 354.59 million or a decrease of 10.14 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from the end of 2013 by Baht 20.24 million or a decrease of 2.99 percent

(2) Short term and long term loans decreased from the end of 2013 by Baht 477.59 million or a decrease of 26.04 percent due to loan repayment by a subsidiary company.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., increased from the end of 2013 by Baht 113.07 million or an increase of 16.07 percent.

(4) Other liabilities, most of which are provision for mine rehabilitation and allowance for long-term benefits of employees, etc., increased from the end of 2013 by Baht 30.17 million or an increase of 10.71 percent.

**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company as at September 30, 2014 increased from the end of 2013 by Baht 752.22 million or an increase of 14.92 percent, resulting in an increase of the share's book value from Baht 7.63 per share to Baht 8.03 per share. This was due to an increase in net profit of Baht 365.80 million, dividend payment of Baht 210 million, a net increase in translation adjustment in financial statement and other items of Baht 54.52 million, and an increase in minority shareholders' equity of Baht 541.90 million. The increase in minority shareholders' equity is due to the sale of a portion of ordinary shares in TAE, a subsidiary company, resulting in the decrease of shareholding proportion of the Company from 75.75 percent to 51 percent.

Cash Flows (Unit: Million Baht)	9-Month Period (Jan – Sep)	
	2014	2013
Cash Flows from (used in) Operating Activities	791.24	610.84
Cash Flows from (used in) Investing Activities	(633.74)	(191.05)
Cash Flows from (used in) Financing Activities	(207.84)	(179.35)
Translation Adjustments in Financial Statements	8.93	(19.40)
Net Increase (Decrease) in Cash	(41.41)	221.04
Cash at the beginning of the period	822.02	1,152.59
<b>Cash at the end of the period</b>	<b>780.61</b>	<b>1,373.63</b>

## CASH FLOWS

(1) The Company's net cash from operating activities in the first 9-month period of 2014 was at Baht 791.24 million, consisting of: (A) income before corporate income tax and interest expense of Baht 724.22 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 356.77 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 271.72 million due to an increase in inventories; (D) an increase in operating liabilities of Baht 106.54 million due to an increase in trade accounts payable and accrued expenses; and (E) an increase in interest income of Baht 20.21 million but there were increases in interest expense and taxes of Baht 144.78 million.

(2) The Company's net cash used in investment activities in the first 9-month period of 2014 was Baht 633.74 million, consisting of: (A) an increase in property, plant and equipment of Baht 353.39 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 35.81 million; and (C) short-term cash investment and other items which decreased by a total of Baht 244.54 million.

(3) The Company's net cash used in financing activities in the first 9-month period of 2014 was Baht 207.84 million, including (A) a net decrease in loan of Baht 477.58 million, (B) dividend payment of Baht 293.02 million, and (C) cash received from the sale of ordinary shares of a subsidiary company of Baht 575.49 million, and (D) a decrease in minority shareholders' equity of Baht 12.73 million.

#### **ASSET MANAGEMENT CAPABILITY**

(1) The Company's trade accounts receivable and other accounts receivable as at September 30, 2014 were 8.20 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 first 9-month period of 2014 and therefore, there was no provision for doubtful debt in the 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014.

(2) Inventory as at September 30, 2014 was 12.12 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 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014.

(3) Goodwill from investment in the subsidiary company in Indonesia as at September 30, 2014 accounted for 2.08 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 3<sup>rd</sup> quarter 2014 and the first 9-month period of 2014.

#### **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The Company's total debt to equity ratio as at September 30, 2014 was as low as 0.54 to 1, having appropriate capital structure. The Company should still be able to borrow additional capital for future project investment, having the interest coverage ratio in the first 9-month period of 2014 as high as 20.89 times. Therefore, the Company should not have any problem concerning with default of interest payment.

(2) The Company's current ratio and quick ratio in the first 9-month period of 2014 were at 2.08 times and 0.94 times, respectively. The Company and its subsidiary companies have adequate credit line for working capital in the future.

(3) The Company's cash cycle in the first 9-month period of 2014 was at 29 days, an increase from the same period last year of 11 days. The average debt collection period was at 22 days, a decrease from the same period last year of 2 days. The average inventory turnover was at 31 days, which was identical to the same period last year. However, the average debt repayment period was at 24 days or a decrease from the same period last year of 13 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 2014, the construction of the fourth biogas production pond was completed in the 2<sup>nd</sup> quarter 2014. A portion of the biogas produced will be used as fuel in ethanol production, and the remaining portion will be used in the planned 3-megawatt biogas power generating system, with investment of about Baht 190 million. The 1<sup>st</sup> phase with 1-megawatt power generation commenced in the 3<sup>rd</sup> quarter 2014. The 2<sup>nd</sup> phase of 2-megawatt biogas power generating system commenced in October 2014. The electricity shall be used within the ethanol production plant which shall further reduce cost of ethanol production. Regarding the constructions of two molasses tanks with total capacity of 20,000 tons, having investment budget of about Baht 60 million, it was completed in the 2<sup>nd</sup> quarter 2014, increasing the volume of molasses storage from 40,000 tons to 60,000 tons, allowing flexibility in receiving and storing molasses used as the main raw material for ethanol production. This will help with the cost management making the ethanol production cost lower and more effective. The source of investment fund for these projects comes from its own cash generation and the increase in capital from the initial public offering (IPO) as described above.

Additionally, a study on a production of high-test molasses as a raw material for ethanol production instead of molasses is being conducted in order to ensure secured supply of raw material, allowing better cost management and lower production cost in the future.

## **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 1.10 times in 2014, and no less than 1.50 times in subsequent years 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 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 load 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 TAE can accrue more debts. Currently, TAE has adequate credit line for its working capital for business operation. Additionally, TAE has obtained approval from the Office of the Securities and Exchange Commission for the initial public offering of common shares, and TAE has been listed on the Stock Exchange of Thailand since June 5, 2014. This allows TAE to acquire additional sources of capital in the future, making the capital structure of TAE more appropriate.

(4) The lending bank has stipulated that TAE cannot pay dividend to its shareholders, including Lanna, 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 Lanna in TAE, etc. Accordingly, TAE has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

## **IMPACTS TO FUTURE OPERATIONS**

It is expected that coal prices in the 4<sup>th</sup> quarter 2014 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. Regarding the ethanol business, the ethanol selling price for 2014 should be higher than in the past year 2013; however, the price of raw material, molasses, has also continued to increase. Nonetheless, the Company can still be profitable from both businesses by putting emphasis on the 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 2014 and proceed with regular dividend payment as planned.

---