

# LANNA RESOURCES PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS (For the Consolidated Financial Statements of Year 2012)

REVENUES	Year 2012		Year 2011		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales Revenue from Coal	12,010.26	89.30	11,899.14	90.44	111.12	0.93
Sales Revenue from Ethanol	1,349.86	10.04	1,098.21	8.35	251.65	22.91
Other Revenue	89.17	0.66	159.40	1.21	(70.23)	(44.06)
<b>Total Revenues</b>	<b>13,449.29</b>	<b>100.00</b>	<b>13,156.75</b>	<b>100.00</b>	<b>292.54</b>	<b>2.22</b>

**REVENUES:** The Company's total revenues in 2012 totaled Baht 13,449.29 million, which increased from the previous year by Baht 292.54 million or an increase of 2.22 percent, due to the following reasons.

(1) Revenue from coal business in 2012 totaled Baht 12,010.26 million or 89.30 percent of the total revenues, which increased from the previous year by Baht 111.12 million or an increase of 0.93 percent. This was due to an increase in the coal sales volume from the previous year by 28.38 percent but the average coal sales price decreased by 21.38 percent.

(2) Revenue from ethanol business in 2012 totaled Baht 1,349.86 million or 10.04 percent of the total revenues, which increased from the previous year by Baht 251.65 million or an increase of 22.91 percent. This was due to an increase in ethanol sales volume from previous year by 45.98 percent but the average ethanol sale price decreased by 10.94 percent.

(3) Other revenue in 2012 totaled Baht 89.17 million or 0.66 percent of the total revenues, which decreased from the previous year by Baht 70.23 million or a decrease of 44.06 percent. This was due to the dissolution of one of the subsidiary companies, and thus there was no revenue from coal transport, loading port and jetty facilities services in this quarter.

EXPENSES	Year 2012		Year 2011		Increase (Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
<b>Coal Business</b>						
Cost of sales	7,556.05	62.91	6,783.72	57.01	772.33	11.39
Selling and administrative expenses	2,749.11	22.89	2,533.31	21.29	215.80	8.52
Financial cost	0.42	0.00	1.02	0.01	(0.60)	(58.82)
Corporate income tax	604.07	5.03	948.16	7.97	(344.09)	(36.29)
<b>Ethanol Business</b>						
Cost of sales	1,070.41	79.30	1,061.82	96.69	8.59	0.81
Selling and administrative expenses	61.23	4.54	51.31	4.67	9.92	19.33
Financial cost	53.73	3.98	28.58	2.60	25.15	88.00

**EXPENSES FROM COAL BUSINESS:** Expenses from coal business in 2012 increased from the previous year by Baht 643.44 million or an increase of 6.27 percent due to the following reasons.

(1) Cost of coal sales in 2012 increased from the previous year by Baht 772.33 million or an increase of 11.39 percent. This was due to an increase in coal sales volume of 28.38 percent, but the average coal sales cost per ton decreased by 13.24 percent.

(2) Selling and administrative expenses in 2012 increased from the previous year by Baht 215.80 million or an increase of 8.52 percent according to an increase in coal sales volume.

(3) Financial cost in 2012 decreased from the previous year by Baht 0.60 million or a decrease of 58.82 percent as there was no loan used in the coal business.

(4) Corporate income tax in 2012 decreased from the previous year by Baht 344.09 million or a decrease of 36.29 percent due to the decrease in net profit and corporate income tax.

**EXPENSES FROM ETHANOL BUSINESS:** Expenses from ethanol business in 2012 increased from the previous year by Baht 43.66 million or an increase of 3.82 percent due to the following reasons.

(1) Cost of ethanol sales in 2012 increased from the previous year by Baht 8.59 million or an increase of 0.81 percent. This was due to the increase in ethanol sales volume of 45.98 percent, but the average ethanol sales cost per liter decreased by 25.35 percent due to the price of raw material, molasses, which is a major cost, decreased from the previous year by 44.82 percent.

(2) Selling and administrative expenses in 2012 increased from the previous year by Baht 9.92 million or an increase of 19.33 percent according to an increase in ethanol sales volume.

(3) Financial expenses in 2012 increased from the previous year by Baht 25.15 million or an increase of 88.00 percent due to an increase in loan interest from the construction of ethanol production line no. 2.

(4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion.

GROSS PROFIT	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Year 2012</b>						
Revenues from Sales	12,010.26	100.00	1,349.86	100.00	13,360.12	100.00
<b>Less</b> Cost of Sales	7,556.05	62.61	1,070.41	79.30	8,626.46	64.57
<b>Gross Profit</b>	<b>4,454.21</b>	<b>37.09</b>	<b>279.45</b>	<b>20.70</b>	<b>4,733.66</b>	<b>35.43</b>
<b>Year 2011</b>						
Revenues from Sales	11,899.14	100.00	1,098.21	100.00	12,997.35	100.00
<b>Less</b> Cost of Sales	6,783.72	57.01	1,061.82	96.69	7,845.54	60.36
<b>Gross Profit</b>	<b>5,115.42</b>	<b>42.99</b>	<b>36.39</b>	<b>3.31</b>	<b>5,151.81</b>	<b>39.64</b>

**GROSS PROFIT:** The Company's overall gross profit in 2012 was Baht 4,733.66 million, or a gross profit margin of 35.43 percent of the sales revenue. When compared with the gross profit of the previous year of Baht 5,151.81 million or gross profit margin of 39.64 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1) Gross profit margin from the coal business in 2012 was 37.09 percent of the sales revenue, which decreased from the previous year with the gross profit margin of 42.99 percent of the sales revenue. This was due to the decrease in average coal sales price per ton as described above.

(2) Gross profit margin from the ethanol business in 2012 was 20.70 percent of the sales revenue which increased from the previous year with the gross profit margin of 3.31 percent. This

was due to the decrease in the price of raw material, molasses, which is considered a major cost as described above.

NET PROFIT	Year 2012		Year 2011		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	683.74	74.66	911.20	87.33	(227.46)	(24.96)
Profit (Loss) from Ethanol Business	124.36	13.58	(33.10)	(3.17)	157.46	475.71
Share of income from investment in the associate company and other revenues	107.70	11.76	165.30	15.84	(57.60)	(34.85)
<b>Net Profit</b>	<b>915.80</b>	<b>100.00</b>	<b>1,043.40</b>	<b>100.00</b>	<b>(127.60)</b>	<b>(12.23)</b>
<b>Net Earnings per Share-Baht per Share</b>	<b>2.62</b>		<b>2.98</b>		<b>(0.36)</b>	<b>(12.23)</b>
<b>Remark: Registered par value of Baht 1 per share</b>						

**NET PROFIT:** The Company's net profit in 2012 was Baht 915.80 million (net earnings of Baht 2.62 per share). When compared with the previous year with the net profit of Baht 1,043.40 million (net earnings per share of Baht 2.98), the net profit decreased by Baht 127.60 million (a decrease of net earnings per share of Baht 0.36) or a decrease of 12.23 percent due to the following reasons.

(1) Net profit from coal business in 2012 was Baht 683.74 million or 74.66 percent of the total net profit, which decreased from the previous year by Baht 227.46 million or a decrease of 24.96 percent, due to the decrease in average cost of coal sales per ton as described above.

(2) Net profit from ethanol business in 2012 was Baht 124.36 million or 13.58 percent of the total net profit, which increased from the previous year by Baht 157.46 million or an increase of 475.71 percent, due to the increase in ethanol sales volume and a decrease in ethanol sales cost due to the decrease in price of raw material, molasses, which is a major cost, as described above.

(3) Net share of income from investment in the associated companies and other revenue in 2012 were Baht 107.70 million or 11.76 percent of the total net profit, which decreased from the previous year by Baht 57.60 million or a decrease of 34.85 percent, as there was no revenue from coal transport, loading port and jetty services as described above.

#### **EBITDA and EBITDA MARGIN**

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in 2012 was Baht 2,273.24 million. When compared with the previous year with EBITDA of Baht 2,991.44 million, the EBITDA decreased by Baht 718.20 million or a decrease of 24.01 percent.

(2) The Company's EBITDA margin in 2012 was at 16.90 percent of the total revenues. When compared with the previous year with EBITDA margin at 22.74 percent of the total revenues, it decreased by 25.66 percent.

#### **EARNINGS EFFICIENCY**

(1) The Company's net profit margin in 2012 was 10.21 percent of the total revenues. When compared with the previous year with the net profit margin of 13.34 percent of the total revenues, the net profit margin decreased by 23.47 percent.

(2) The Company's return on equity (ROE) in 2012 was 26.61 percent. When compared with the previous year with the average return on equity of 35.40 percent, it decreased by 24.84 percent.

(3) The Company's return on total assets and return on fixed assets in 2012 were at 18.58 percent and 53.64 percent, respectively. When compared with the previous year with the return on total assets and return on fixed assets of 26.79 percent and 70.84 percent, they decreased by 30.65 percent and 24.28 percent, respectively. The asset turnover ratio was at 1.82 times, which was lower than the previous year with the asset turnover ratio of 2.01 times.

Description	Unit : Million Baht		Increase (Decrease)	
	As at December 31, 2012	As at December 31, 2011	Million Baht	%
Total Assets	7,560.31	7,217.57	342.74	4.75
Total Liabilities	3,074.29	3,138.87	(64.58)	(2.06)
Total Shareholders' Equity	4,486.02	4,078.70	407.32	9.99
<b>Book Value-Baht per Share</b>	<b>10.32</b>	<b>9.35</b>	<b>0.97</b>	<b>10.37</b>
<b>Remark: Registered par value of Baht 1 per share</b>				

**ASSETS:** The Company's total assets as at end of 2012 increased from the end of 2011 by Baht 342.74 million or an increase of 4.75 percent, consisting of:

(1) Current assets increased from the end of 2011 by Baht 228.61 million or an increase of 6.14 percent, due to (A) cash and cash equivalent increased from the end of 2011 by Baht 379.20 million or an increase of 31.28 percent. (B) Trade accounts receivable and other accounts receivable decreased from the end of 2011 by Baht 332.09 million or a decrease of 27.72 percent. (C) Inventories increased from the end of 2011 by Baht 230.57 million or an increase of 84.85 percent due to an increase in coal stockpile and (D) Other current assets decreased from the end of 2011 by Baht 49.07 million or a decrease of 4.70 percent.

(2) Non-current assets increased from the end of 2011 by Baht 114.13 million or an increase of 3.27 percent, most of which were the cost of development of coal mine project of subsidiary company in Indonesia.

**LIABILITIES:** The Company's total liabilities as at end of 2012 decreased from the end of 2011 by Baht 64.58 million or a decrease of 2.06 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from the end of 2011 by Baht 373.55 million or an increase of 98.93 percent.

(2) Short term and long term loans decreased from the end of 2011 by Baht 230.00 million or a decrease of 15.72 percent.

(3) Other liabilities decreased from the end of 2011 by Baht 208.13 million or a decrease of 16.03 percent, most of which were due to a decrease in accrued corporate income tax.

**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company as at the end of 2012 increased from the end of 2011 by Baht 407.32 million or an increase of 9.99 percent, resulting in an increase of the share's book value from Baht 9.35 per share to Baht 10.32 per share. This was due to the increase in net profit of Baht 915.80 million, dividend payment of Baht 525.00 million, the increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 48.51 million, and the increase of minority shareholders' equity of Baht 65.03 million.

CASH FLOWS	(Unit : Million Baht)	
	Year 2012	Year 2011
Cash Flows from (used in) Operating Activities	1,927.01	1,740.25
Cash Flows from (used in) Investing Activities	(803.10)	(636.47)

Cash Flows from (used in) Financing Activities	(1,146.98)	(771.13)
Translation Adjustments in Financial Statements (Decrease)	(36.73)	50.52
Net Increase (Decrease) in Cash	(59.80)	383.17
Cash at the beginning of the period	1,212.39	829.22
Cash at the end of the period	1,152.59	1,212.39

## CASH FLOWS

(1) The Company's net cash from operating activities in 2012 was at Baht 1,927.01 million, consisting of: (A) income before corporate income tax and interest payment of Baht 1,976.88 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 427.10 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) operating assets decreased by Baht 366.09 million due to a decrease in trade accounts receivable; (D) operating liabilities increased by Baht 399.74 million due to an increase in trade accounts payable and other payables; and (E) interest income increased by Baht 15.39 million but with an increase in interest expenses and taxes of Baht 1,258.19 million.

(2) The Company's net cash used in investment activities in 2012 was Baht 803.10 million, consisting of: (A) property, plants and equipment of Baht 241.12 million, most of which were for the construction of ethanol production line no. 2 of the subsidiary company; (B) expenses of coal mine projects of subsidiary company in Indonesia, which increased by Baht 123.68 million; and (C) short-term cash deposit and other items which decreased by a total of Baht 438.30.

(3) The Company's net cash used in financing activities in 2012 was Baht 1,146.98 million, including (A) the net decrease in loan of Baht 230.00 million, (B) dividend payment of Baht 894.85 million, and (C) the decreased in minority shareholders equity of Baht 22.13 million.

## LIQUIDITY

(1) The Company's current ratio and quick ratio in 2012 were at 1.74 times and 1.08 times, respectively. Accordingly, the Company and its subsidiary companies still have adequate credit line for working capital in the future.

(2) The Company's cash cycle in 2012 was at 22 days, a decrease from the previous year by 4 days. The average debt collection period was at 28 days, a decrease from the previous year by 1 day. The average inventory turnover was at 16 days, an increase from the previous year by 3 days. However, the average debt payment period was at 22 days, or an increase from the previous year by 6 days.

## BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio in the end of 2012 was as low as 0.69 to 1. Therefore, the Company's borrowing capacity remains high should additional funding be required for project investment in the future, having the interest coverage ratio in the end of 2012 at 41.98 times, which was considered quite a high ratio and therefore should have no problem concerning with default of interest payment.

## **FUTURE OUTLOOK**

It is expected that the coal price in the first 6-month period of 2013 will remain low, continuing from the last 6-month period of 2012. In the last 6-month period of 2013, the coal price should gradually climb up according to the recovering global economy. Nevertheless, the Company will try to manage and resolve any problems and impacts with caution to ensure continuous good operating results in 2013.

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