

# LANNA RESOURCES PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the First Quarter 2012)

REVENUES	1 <sup>st</sup> Quarter 2012		1 <sup>st</sup> Quarter 2011		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales Revenue from Coal	2,382.85	87.22	2,469.26	90.18	(86.41)	(3.50)
Sales Revenue from Ethanol	287.77	10.53	230.98	8.44	56.79	24.59
Other Revenue	61.32	2.25	37.76	1.38	23.56	62.39
<b>Total Revenues</b>	<b>2,731.94</b>	<b>100.00</b>	<b>2,738.00</b>	<b>100.00</b>	<b>(6.06)</b>	<b>(0.22)</b>

**REVENUES:** The Company's total revenues in the first quarter 2012 were Baht 2,731.94 million, which decreased from the same previous last year by Baht 6.06 million or a decrease of 0.22 percent, due to the following reasons.

(1) Revenue from coal business in the first quarter 2012 was Baht 2,382.85 million or 87.22 percent of the total revenues, which decreased from the same previous last year by Baht 86.41 million or a decrease of 3.50 percent. This was due to a decrease in an average coal sales price from the same period last year by 6.08 percent but coal sales volume increased from the same period last year by 2.75 percent.

(2) Revenue from ethanol business in the first quarter 2012 was Baht 287.77 million or 10.53 percent of the total revenues, which increased from the same period last year by Baht 56.79 million or an increase of 24.59 percent. This was due to an increase in ethanol sales volume from the same period last year by 41.31 percent, despite the decrease in average ethanol sale price of 12.43 percent.

(3) Other revenue in the first quarter 2012 was Baht 61.32 million or 2.25 percent of the total revenues, which increased from the same period last year by Baht 23.56 million or an increase of 62.39 percent, due to insurance compensation received for the damaged coal stockpile and assets caused by the flood during late 2011 of Baht 26.64 million.

EXPENSES	1 <sup>st</sup> Quarter 2012		1 <sup>st</sup> Quarter 2011		Increase (Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
<b>Coal Business</b>						
Cost of sales	1,496.34	62.80	1,289.17	52.21	207.17	16.07
Selling and administrative expenses	458.73	19.25	524.01	21.22	(65.28)	(12.46)
Financial cost	0.00	0.00	0.28	0.01	(0.28)	(100.00)
Corporate income tax	163.86	6.88	208.24	8.43	(44.38)	(21.31)
<b>Ethanol Business</b>						
Cost of sales	197.35	68.24	226.37	98.00	(29.02)	(12.82)
Selling and administrative expenses	12.80	4.45	9.53	4.13	3.27	34.31
Financial cost	7.97	2.77	3.40	1.47	4.57	134.41

### EXPENSES FROM COAL BUSINESS

(1) Cost of coal sales in the first quarter 2012 increased from the same period last year by Baht 207.17 million or an increase of 16.07 percent. This was due to the increase in coal sales volume and average cost of sales per ton by 6.08 percent and 12.97 percent, respectively.

(2) Selling and administrative expenses in the first quarter 2012 decreased from the same period last year by Baht 65.28 million or a decrease of 12.46 percent, in line with the decrease in revenue.

(3) Financial expenses in the first quarter 2012 decreased from the same period last year by Baht 0.28 million or a decrease of 100.00 percent as there was no loan used in the coal business.

(4) Corporate income tax in the first quarter 2012 decreased from the same period last year by Baht 44.38 million or a decrease of 21.31 percent, in line with the decrease in profit from coal sales.

#### EXPENSES FROM ETHANOL BUSINESS

(1) Cost of ethanol sales in the first quarter 2012 decreased from the same period last year by Baht 29.02 million or a decrease of 12.82 percent due to the decrease in the average sale cost of ethanol per ton from the same period last year by 40.49 percent due to a lower price of molasses raw material which was a major cost, by 49.30 percent as compared with the same period last year.

(2) Selling and administrative expenses in the first quarter 2012 increased from same period last year by Baht 3.27 million or an increase of 34.31 percent according to the increase in ethanol sales volume.

(3) Financial expenses in the first quarter 2012 increased from the same period last year by Baht 4.57 million or an increase of 134.41 percent due to the increase in loan.

(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>1<sup>st</sup> Quarter 2012</b>						
Revenues from Sales	2,382.85	100.00	287.77	100.00	2,670.62	100.00
Less Cost of Sales	1,496.34	62.80	196.38	68.24	1,692.72	63.38
<b>Gross Profit Margin</b>	<b>886.51</b>	<b>37.20</b>	<b>91.39</b>	<b>31.76</b>	<b>977.90</b>	<b>36.62</b>
<b>1<sup>st</sup> Quarter 2011</b>						
Revenues from Sales	2,469.26	100.00	230.98	100.00	2,700.24	100.00
Less Cost of Sales	1,289.17	52.21	226.37	98.00	1,515.54	56.13
<b>Gross Profit Margin</b>	<b>1,180.09</b>	<b>47.79</b>	<b>4.61</b>	<b>2.00</b>	<b>1,184.70</b>	<b>43.87</b>

**GROSS PROFIT:** The Company's overall gross profit in the first quarter 2012 was Baht 977.90 million, or a gross profit margin of 36.62 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,184.70 million or gross profit margin of 43.87 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1) Gross profit margin from the coal business in the first quarter 2012 was 37.20 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 47.79 percent of the sales revenue. This was due to the fact that the average coal selling price per ton decreased while the average cost of coal sales per ton increased as described above.

(2) Gross profit margin from the ethanol business in the first quarter 2012 was 31.76 percent of the sales revenue which increase from the same period last year with the gross profit margin of 2 percent due to the decrease in the price of raw material, molasses, which is considered a major cost as described above.

NET PROFIT	1 <sup>st</sup> Quarter 2012		1 <sup>st</sup> Quarter 2011		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	154.36	56.78	261.55	89.16	(107.19)	(40.98)
Profit (Loss) from Ethanol Business	52.75	19.40	(6.41)	(2.19)	59.16	922.93
Share of income from investment in the associated company and other revenues	64.74	23.82	38.22	13.03	26.52	69.39
<b>Net Profit</b>	<b>271.85</b>	<b>100.00</b>	<b>293.36</b>	<b>100.00</b>	<b>(21.51)</b>	<b>(7.33)</b>
<b>Net Profit per Share-Baht per Share</b>	<b>0.78</b>		<b>0.84</b>		<b>(0.06)</b>	
<b>Remark : Registered par value of Baht 1 per share</b>						

**NET PROFIT:** The Company's net profit in the first quarter 2012 was Baht 271.85 million (net earnings of Baht 0.78 per share). When compared with the same previous last year with the net profit of Baht 293.36 million (net earnings per share of Baht 0.84), the net profit decreased by Baht 21.51 million (a decrease of net earnings per share of Baht 0.06) or a decrease of 7.33 percent due to the following reasons.

(1) Net profit from the coal business in first quarter 2012 was Baht 154.36 million or 56.78 percent of the total net profit, which decreased from the same period last year by Baht 107.19 million or a decrease of 40.98 percent, due to the decrease in an average of coal selling price per ton while the average cost of coal sales per ton increased as described above.

(2) Net profit from the ethanol business in first quarter 2012 was Baht 52.75 million or 19.40 percent of the total net profit, which increased from the same period last year by Baht 59.16 million or an increase of 922.93 percent, due to the increase in ethanol sales volume and a decrease of 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 company and other revenue in the first quarter 2012 were Baht 64.74 million or 23.82 percent of the total net profit, which increased from the same period last year by Baht 26.52 million or an increase of 69.39 percent, due to the insurance compensation received for the damaged coal stockpile and assets caused by the flood as described above.

**EBITDA:** The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first quarter 2012 was Baht 609.48 million. When compared with the same period last year with EBITDA of Baht 739.40 million, the EBITDA decreased by Baht 129.92 million, due to the decrease in profit from the coal business.

#### **EARNINGS EFFICIENCY**

(1) The Company's net profit margin in the first quarter 2012 was 14.58 percent of the total revenues. When compared with the same period last year with the net profit margin of 17.44 percent of the total revenues, the net profit margin decreased by 16.39 percent.

(2) The Company's EBITDA margin in the first quarter 2012 was 22.31 percent of the total revenues. When compared with the same period last year with the EBITDA margin of 27.01 percent of the total revenues, the EBITDA margin decreased by 17.38 percent.

(3) The Company's average return on equity in the first quarter 2012 was 8.02 percent. When compared with the same period last year with the average return on equity of 10.56 percent, it decreased by 24.02 percent.

(4) The Company's return on total assets and return on fixed assets in the first quarter 2012 were at 5.54 percent and 15.23 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 7.78 percent and 19.87 percent, they decreased by 28.82 percent and 23.37 percent, respectively. The asset turnover ratio was at 0.38 times, which was lower than that of the same period last year with the asset turnover ratio of 0.45 times.

<b>FINANCIAL STATUS</b>	<b>Unit : Million Baht</b>		<b>Increase (Decrease)</b>	
	<b>As at March 31, 2012</b>	<b>As at December 31, 2011</b>	<b>Amount</b>	<b>%</b>
Total Assets	7,164.10	7,217.57	(53.47)	(0.74)
Total Liabilities	2,827.13	3,138.87	(311.74)	(9.93)
Total Shareholders' Equity	4,336.97	4,078.70	258.27	6.33
<b>Book Value-Baht per Share</b>	<b>10.02</b>	<b>9.35</b>	<b>0.67</b>	<b>7.19</b>
<b>Remark : Registered par value of Baht 1 per share</b>				

**ASSETS:** The Company's total assets as at March 31, 2012 decreased from the end of 2011 by Baht 53.47 million or a decrease of 0.74 percent, consisting of:

(1) Current assets decreased from the end of 2011 by Baht 132.73 million or a decrease of 3.56 percent, due to the following reasons.

(1.1) Cash and cash equivalent decreased from the end of 2011 by Baht 279.91 million or a decrease of 23.09 percent.

(1.2) Accounts receivable and other debtors decreased from the end of 2011 by Baht 162.85 million or a decrease of 13.59 percent due to the decrease in sales revenues.

(1.3) Inventories increased from the end of 2011 by Baht 274.17 million or an increase of 100.89 percent due to an increase in coal stockpile.

(1.4) Other current assets increased from the end of 2011 by Baht 35.86 million or an increase of 3.44 percent due to an increase in pre-paid corporate income tax.

(2) Non-current assets increased from the end of 2011 by Baht 79.26 million or an increase of 2.27 percent, most of which were the investment of the subsidiary company for the construction of the ethanol plant's production line no. 2 and the deferred expenses in coal mine project in Indonesia.

**LIABILITIES:** The Company's total liabilities as at March 31, 2012 decreased from the end of 2011 by Baht 311.74 million or a decrease of 9.93 percent, consisting of:

(1) Current liabilities decreased from the end of 2011 by Baht 312.87 million or a decrease of 16.37 percent, due to the following reasons.

(1.1) Trade accounts payable and other creditors increased from the end of 2011 by Baht 169.81 million or an increase of 44.97 percent.

(1.2) Short term and long term loans with payment due within one year decreased from the end of 2011 by Baht 39.48 million or a decrease of 2.70 percent due to loan repayment by the subsidiary company.

(1.3) Other current liabilities decreased from the end of 2011 by Baht 443.20 million or a decrease of 37.70 percent due to a decrease in outstanding corporate income tax.

(2) Non-current liabilities increased from the end of 2011 by Baht 1.13 million or an increase of 0.92 percent.

**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company as at March 31, 2012 increased from the end of 2011 by Baht 258.27 million or an increase of 6.33 percent, resulting in an increase of the share's book value from Baht 9.35 per share to Baht 10.02 per share. This was due to the increase in net profit of Baht 271.85 million, the decrease in adjustment of retained earnings and translation adjustment in financial statement of Baht 36.61 million and the increase of minority shareholders' equity of Baht 23.03 million.

CASH FLOWS	Unit : Million Baht	
	1 <sup>st</sup> Quarter 2012	1 <sup>st</sup> Quarter 2011
Cash Flows from (used in) Operating Activities	19.61	43.08
Cash Flows from (used in) Investing Activities	(137.34)	(214.93)
Cash Flows from (used in) Financing Activities	(142.91)	109.45
Increase (decrease) of Translation Adjustments in Financial Statements	(19.27)	12.03
Net Increase (Decrease) in Cash	(279.91)	(50.37)
Cash at the beginning of the period	1,212.39	829.22
Cash at the end of the period	932.48	778.85

● The Company's net cash from operating activities in the first quarter 2012 was at Baht 19.61 million, consisting of:

(1) Income before corporate income tax and interest payment of Baht 562.17 million.

(2) Transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 47.72 million, most of which were the transactions concerning coal mining operations of the subsidiary companies in Indonesia.

(3) Operating assets increased by Baht 99.99 million due to the increase in inventories.

(4) Operating liabilities increased by Baht 46.21 million due to an increase in trade and other payables.

(5) Interest income increased by Baht 3.28 million but there were increases in interest expenses and taxes of Baht 539.78 million.

- The Company's net cash used in investment activities in the first quarter 2012 was Baht 137.34 million including the increase in property, plant and equipment of Baht 85.24 million, mostly from the new ethanol plant construction of the subsidiary company, cash deposit with guarantee obligation, which increased by Baht 13.29 million and other assets such as expenses of coal mine projects in Indonesia, which increased by Baht 38.81 million.

- The Company's net cash used in financing activities in the first quarter 2012 was Baht 142.91 million. This was due to the net decrease in loan of Baht 39.48 million, dividend payment of Baht 86.73 million and the decrease in minority shareholders equity by Baht 16.70 million.

- In summary, the Company's main sources of cash were from the sales of coal and ethanol with ability to collect the bills on time.

## **LIQUIDITY**

(1) The Company's current ratio and quick ratio as at March 31, 2012 at 1.33 times and 0.73 times, respectively. Moreover, the Company and its subsidiary companies still have adequate credit line for working capital in the future.

(2) The Company's cash cycle in the first quarter 2012 was at 36 days, an increase from the previous year by 1 day. The average debt collection period was at 37 days, an increase from the previous year by 8 days. The average inventory turnover was at 22 days, a decrease from the previous year by 5 days but the average debt payment period was at 23 days, or an increase from the previous year by 2 days.

## **BORROWING AND DEBT PAYMENT CAPABILITY**

The Company's total debt to equity ratio as at March 31, 2012 was as low as 0.65 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 first quarter 2012 at 76.47 times, which was considered quite high ratio and therefore should have no problem concerning with default of interest payment.