



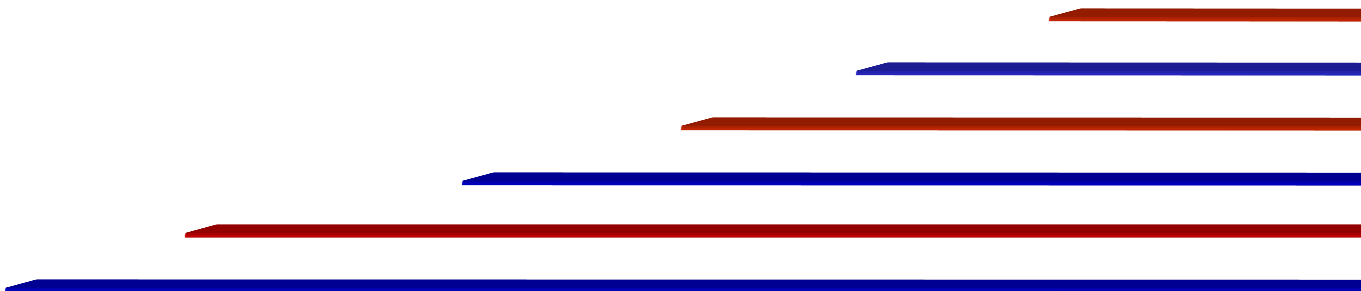
**LANNA RESOURCES PUBLIC COMPANY LIMITED**

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

**OF THE 3<sup>rd</sup> QUARTER 2018 AND THE FIRST 9-MONTH PERIOD OF 2018**



# LANNA RESOURCES PUBLIC COMPANY LIMITED

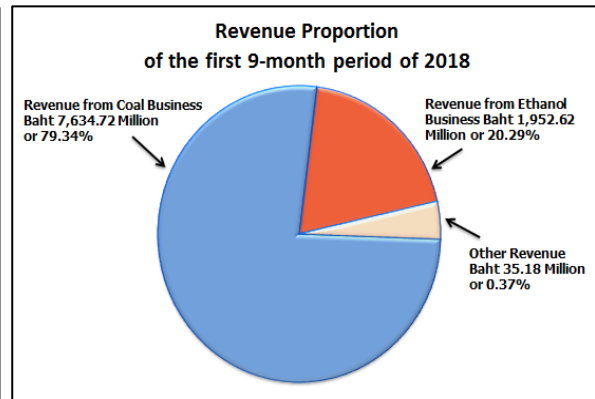
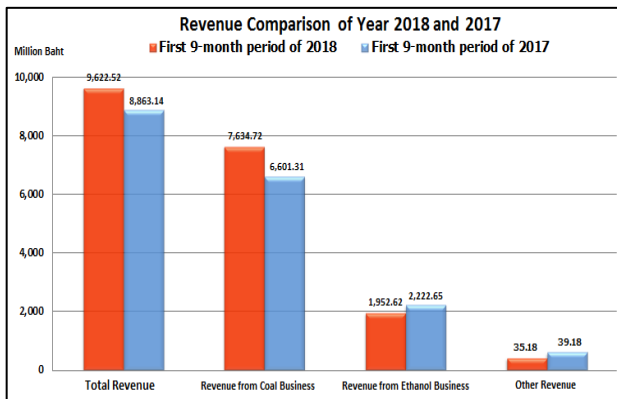
## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3<sup>rd</sup> Quarter 2018 and the first 9-month period of 2018)

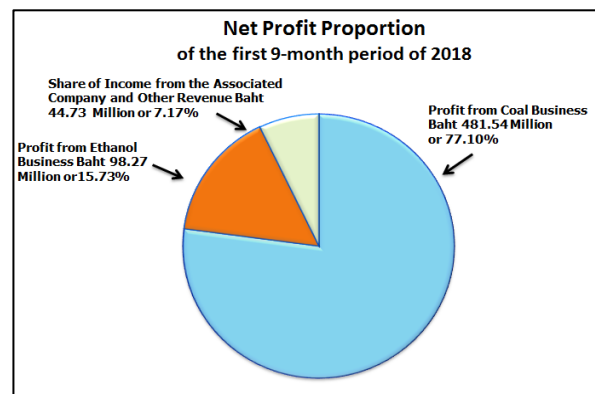
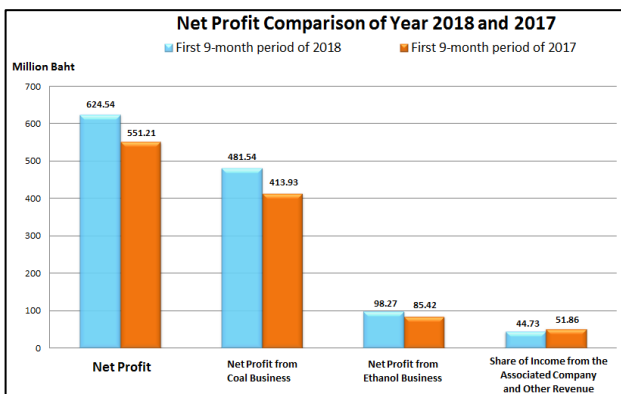
### OVERALL OPERATING RESULTS

The overall operating results during the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018 of the Company and subsidiary companies were still considered in good standard in terms of revenue and net profit, in line with an increase in coal sales volume and coal selling price. For ethanol business, regarded as the secondary core business, was still profitable as the cost of molasses, which is a major cost, became lower. Overall, the profitability is considered good and satisfactory.

The Company and subsidiary companies had total revenue in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018 of Baht 3,159.67 million and 9,622.52 million, which increased from the same period last year by Baht 14.97 and 759.38 million or 0.48 and 8.57 percent. The revenue proportion from coal business, ethanol business and other revenue in the first 9-month period of 2018 accounted for 79.34, 20.29 and 0.37 percent, respectively.



The Company and subsidiary companies had total net profit during the 3<sup>rd</sup> quarter 2018 of Baht 144.70 million or net earnings per share of Baht 0.28 per share, which decreased from the same period last year by Baht 104.89 million or 42.02 percent, and the net profit in the first 9-month period of 2018 was Baht 624.54 million or net earnings per share of Baht 1.19, which increased from the same period last year by Baht 73.33 million or 13.30 percent. The net profit proportion from coal business, ethanol business, and other revenue including share of income from the associated company in the first 9-month period of 2018 accounted for 77.10, 15.73 and 7.17 percent, respectively, with the net profit margin of 11.27 percent, an increase from the same period last year by 5.12 percent; the EBITDA margin of 21.96 percent, an increase from the same period last year by 1.82 percent; and the return on equity of 14.47 percent, an increase from the same period last year by 11.88 percent.



The overall financial position and liquidity of the Company and subsidiary companies as at September 30, 2018 were considered in good standard. The current ratio was as high as 1.52 times but the total debt to total assets ratio was only 38.08 percent with debt to equity ratio of only 61.49 percent.

**COAL BUSINESS:** The revenue from coal business, which is the core business, in the 3<sup>rd</sup> quarter 2018 totaled Baht 2,519.39 million, which increased from the same period last year by Baht 68.88 million or 2.81 percent, due to the increase in coal sales volume and average coal selling price of 2.47 and 0.33 percent, respectively. The net profit derived from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2018 was Baht 96.24 million, which decreased from the same period last year by Baht 111.97 or 53.78 percent, and the revenue from coal business in the first 9-month period of 2018 totaled Baht 7,634.72 million, which increased from the same period last year by Baht 1,033.41 million or 15.65 percent, due to the increase in coal sales volume of 18.18 percent, but the average coal selling price slightly decreased by 2.14 percent. The net profit derived from shareholding proportion of the Company in the first 9-month period of 2018 was Baht 481.54 million, which increased from the same period last year by Baht 67.61 million or 16.33 percent, which continued to be profitable.

**ETHANOL BUSINESS:** The revenue from ethanol business, which is the secondary core business, in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018 totaled Baht 630.92 million and 1,952.62 million, which decreased from the same period last year by Baht 54.97 million and 270.03 million or 8.01 and 12.15 percent, respectively. Despite the increase in ethanol sales volume in the 3<sup>rd</sup> quarter 2018 from the same period last year of 1.72 percent, but the ethanol sales volume in the first 9-month period decreased by 5.50 percent, as well as the average ethanol selling price decreased by 9.55 and 7.02 percent, respectively. The net profit derived from shareholding proportion of the Company in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018 was Baht 36.31 million and 98.27 million, which increased from the same period last year by Baht 7.25 million and 12.85 million or 24.95 and 15.04 percent, respectively, due to the decrease in average cost of sales of 15.02 and 11.28 percent, respectively. The main reason was the decrease of 23.48 and 14.96 percent, respectively, in molasses price, which is the main raw material; therefore, the business continued to be profitable.

## OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarter			Increase (Decrease)		9-Month Period (Jan. – Sep.)		Increase (Decrease) (%)
	2/2018	3/2018	3/2017	YoY (%)	QoQ (%)	2018	2017	
Revenue from Coal Sales	2,658.68	2,519.39	2,450.51	2.81	(5.24)	7,634.72	6,601.31	15.65
Revenue from Ethanol Sales	715.41	630.92	685.89	(8.01)	(11.81)	1,952.62	2,222.65	(12.15)
Other Revenue	12.80	9.36	8.30	12.77	(26.88)	35.18	39.18	(10.21)
<b>Total Revenue</b>	<b>3,386.89</b>	<b>3,159.67</b>	<b>3,144.70</b>	<b>0.48</b>	<b>(6.71)</b>	<b>9,622.52</b>	<b>8,863.14</b>	<b>8.57</b>

## REVENUE

(1) Revenue of the Company and subsidiary companies in the 3<sup>rd</sup> quarter 2018 totaled Baht 3,159.67 million, which increased from the same period last year by Baht 14.97 million or 0.48 percent due to the following reasons:

(1.1) Revenue from coal business totaled Baht 2,519.39 million, which increased from the same period last year by Baht 68.88 million or 2.81 percent. This was due to the average increase in coal sales volume and coal selling price as described above.

(1.2) Revenue from ethanol business totaled Baht 630.92 million, which decreased from the same period last year by Baht 54.97 million or 8.01 percent. Despite the increase in ethanol sales volume but ethanol selling price decreased as described above; and

(1.3) Other revenue totaled Baht 9.36 million, which increased from the same period last year by Baht 1.06 million or 12.77 percent. This was due to the increase in interest received and revenue from miscellaneous items.

(2) The revenue of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 9,622.52 million, which increased from the same period last year by Baht 759.38 million or 8.57 percent due to the following reasons:

(2.1) Revenue from coal business totaled Baht 7,634.72 million, which increased from the same period last year by Baht 1,033.41 million or 15.65 percent. This was due to the increase in coal sales volume as described above.

(2.2) Revenue from ethanol business totaled Baht 1,952.62 million, which decreased from the same period last year by Baht 270.03 million or 12.15 percent. This was due the decrease in ethanol sales volume and ethanol selling price as described above; and

(2.3) Other revenue totaled Baht 35.18 million, which decreased from the same period last year by Baht 4 million or 10.21 percent. This was due to the decrease in revenue from miscellaneous items.

Expenses (Unit: Million Baht)	Quarter			Increase (Decrease)		9-Month Period (Jan. – Sep.)		Increase (Decrease) (%)
	2/2018	3/2018	3/2017	YoY (%)	QoQ (%)	2018	2017	
<b>Coal Business</b>								
Cost of sales	<b>1,517.76</b>	<b>1,501.98</b>	<b>1,347.16</b>	<b>11.49</b>	<b>(1.04)</b>	<b>4,381.42</b>	<b>3,877.06</b>	<b>13.01</b>
Selling and administrative expenses	<b>644.59</b>	<b>731.47</b>	<b>593.12</b>	<b>23.33</b>	<b>13.48</b>	<b>1,932.72</b>	<b>1,610.86</b>	<b>19.98</b>
Financial cost	<b>6.73</b>	<b>5.03</b>	<b>7.41</b>	<b>(32.12)</b>	<b>(25.26)</b>	<b>17.93</b>	<b>24.31</b>	<b>(26.24)</b>
Corporate income tax	<b>178.42</b>	<b>104.26</b>	<b>163.25</b>	<b>(36.13)</b>	<b>(41.56)</b>	<b>457.49</b>	<b>359.93</b>	<b>27.11</b>
<b>Ethanol Business</b>								
Cost of sales	<b>621.91</b>	<b>527.30</b>	<b>609.99</b>	<b>(13.56)</b>	<b>(15.21)</b>	<b>1,658.33</b>	<b>1,978.48</b>	<b>(16.18)</b>
Selling and administrative expenses	<b>19.49</b>	<b>15.90</b>	<b>13.18</b>	<b>20.64</b>	<b>(18.42)</b>	<b>59.09</b>	<b>42.37</b>	<b>39.46</b>
Financial cost	<b>10.74</b>	<b>10.01</b>	<b>7.51</b>	<b>33.29</b>	<b>(6.80)</b>	<b>29.24</b>	<b>26.36</b>	<b>10.93</b>
Corporate income tax	<b>4.79</b>	<b>6.03</b>	<b>(2.17)</b>	<b>377.88</b>	<b>25.89</b>	<b>11.82</b>	<b>6.57</b>	<b>79.91</b>

## COAL BUSINESS EXPENSES

(1) Coal business expenses of the Company and subsidiary companies in the 3<sup>rd</sup> quarter 2018 totaled Baht 2,342.74 million, which increased from the same period last year by Baht 231.80 million or 10.98 percent, due to the following reasons:

(1.1) Cost of coal sales increased from the same period last year by Baht 154.82 million or 11.49 percent, due to the increase in coal sales volume and the average cost of coal sales of 2.47 and 8.81 percent, respectively.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 138.35 million or 23.33 percent according to the increase in coal sales volume and there was a provision for the transfer quota fee to pay compensation for the difference in domestic coal sale volume in Indonesia according to the law of Indonesia.

(1.3) Financial expense decreased from the same period last year by Baht 2.38 million or 32.12 percent due to the decrease in interest expense; and

(1.4) Corporate income tax decreased from the same period last year by Baht 58.99 million or 36.13 percent according to the decrease in profit.

(2) Coal business expenses of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 6,789.56 million, which increased from the same period last year by Baht 917.40 million or 15.62 percent, due to the following reasons:

(2.1) Cost of coal sales increased from the same period last year by Baht 504.36 million or 13.01 percent, due to the increase in coal sales volume of 18.18 percent, but the average cost of coal sales decreased by 4.38 percent.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 321.86 million or 19.98 percent according to the increase in coal sales volume and there was a provision for the transfer quota fee to pay compensation for the difference in domestic coal sale volume in Indonesia according to the law of Indonesia.

(2.3) Financial expense decreased from the same period last year by Baht 6.38 million or 26.24 percent due to the decrease in interest expense; and

(2.4) Corporate income tax increased from the same period last year by Baht 97.56 million or 27.11 percent according to the increase in profit.

## **ETHANOL BUSINESS EXPENSES**

(1) Ethanol business expenses of the subsidiary company in the 3<sup>rd</sup> quarter 2018 totaled Baht 559.24 million, which decreased from the same period last year by Baht 69.27 million or 11.02 percent, due to the following reasons:

(1.1) Cost of ethanol sales decreased from the same period last year by 82.69 million or 13.56 percent. Despite the increase in ethanol sales volume of 1.72 percent but the cost of ethanol sales decreased by 15.02 percent, due to the decrease of 23.48 percent in molasses price, which is a raw material and a major cost.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 2.72 million or 20.64 percent due to the increase in salary and freight cost.

(1.3) Financial expense increased from the same period last year by Baht 2.50 million or 33.29 percent due to the increase in short-term loan to use as working capital; and

(1.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Ethanol Production Line No. 1 was subject to corporate income tax of Baht 6.03 million in accordance with the increase in profit.

(2) Ethanol business expenses of the subsidiary company in the first 9-month period of 2018 totaled Baht 1,758.48 million, which decreased from the same period last year by Baht 295.30 million or 14.38 percent, due to the following reasons:

(2.1) Cost of ethanol sales decreased from the same period last year by 320.15 million or 16.18 percent. This was due to the decrease in ethanol sales volume and cost of ethanol sales of 5.50 and 11.28 percent, respectively, which was in line with the decrease of 14.96 percent in molasses price, which is the raw material and a major cost.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 16.72 million or 39.46 percent due to the increase in salary and freight cost.

(2.3) Financial expense increased from the same period last year by Baht 2.88 million or 10.93 percent due to the increase in short-term loan to use as working capital; and

(2.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Ethanol Production Line No. 1 was subject to corporate income tax of Baht 11.82 million, which increased from the same period last year by Baht 5.25 million or 79.91 percent in accordance with the increase in profit.

<b>Gross Profit</b>	<b>Coal Business</b>		<b>Ethanol Business</b>		<b>Total</b>	
	<b>Million Baht</b>	<b>%</b>	<b>Million Baht</b>	<b>%</b>	<b>Million Baht</b>	<b>%</b>
<b>3<sup>rd</sup> Quarter (July-September)</b>						
<b>Year 2018</b>						
Revenues from sales	<b>2,519.39</b>	<b>100.00</b>	<b>630.92</b>	<b>100.00</b>	<b>3,150.31</b>	<b>100.00</b>
<b>Less</b> Cost of sales	<b>1,501.98</b>	<b>59.62</b>	<b>527.30</b>	<b>83.58</b>	<b>2,029.28</b>	<b>64.42</b>
<b>Gross Profit</b>	<b>1,017.41</b>	<b>40.38</b>	<b>103.62</b>	<b>16.42</b>	<b>1,121.03</b>	<b>35.58</b>
<b>Year 2017</b>						
Revenues from sales	<b>2,450.51</b>	<b>100.00</b>	<b>685.89</b>	<b>100.00</b>	<b>3,136.40</b>	<b>100.00</b>
<b>Less</b> Cost of sales	<b>1,347.16</b>	<b>54.97</b>	<b>609.99</b>	<b>88.93</b>	<b>1,957.15</b>	<b>62.40</b>
<b>Gross Profit</b>	<b>1,103.35</b>	<b>45.03</b>	<b>75.90</b>	<b>11.07</b>	<b>1,179.25</b>	<b>37.60</b>
<b>9-Month Period (January-September)</b>						
<b>Year 2018</b>						
Revenues from sales	<b>7,634.72</b>	<b>100.00</b>	<b>1,952.62</b>	<b>100.00</b>	<b>9,587.34</b>	<b>100.00</b>
<b>Less</b> Cost of sales	<b>4,381.42</b>	<b>57.39</b>	<b>1,658.33</b>	<b>84.93</b>	<b>6,039.75</b>	<b>63.00</b>
<b>Gross Profit</b>	<b>3,253.30</b>	<b>42.61</b>	<b>294.29</b>	<b>15.07</b>	<b>3,547.59</b>	<b>37.00</b>
<b>Year 2017</b>						
Revenues from sales	<b>6,601.31</b>	<b>100.00</b>	<b>2,222.65</b>	<b>100.00</b>	<b>8,823.96</b>	<b>100.00</b>
<b>Less</b> Cost of sales	<b>3,877.06</b>	<b>58.73</b>	<b>1,978.48</b>	<b>89.01</b>	<b>5,855.54</b>	<b>66.36</b>
<b>Gross Profit</b>	<b>2,724.25</b>	<b>41.27</b>	<b>244.17</b>	<b>10.99</b>	<b>2,968.42</b>	<b>33.64</b>

## **GROSS PROFIT**

(1) Gross profit of the Company and subsidiary companies in the 3<sup>rd</sup> quarter 2018 totaled Baht 1,121.03 million, or 35.58 percent of the sales revenue, which decreased from the same period last year with the gross profit of Baht 1,179.25 million or 37.60 percent of the sales revenue, due to the following reasons:

(1.1) Gross profit from coal business was 40.38 percent of the sales revenue, which decreased from the same period last year with gross profit of 45.03 percent of the sales revenue. This was due to the increase in average coal selling price of 0.33 percent but the cost of coal sales increased by 8.81 percent; and

(1.2) Gross profit from ethanol business was 16.42 percent of the sales revenue, which increased from the same period last year with gross profit of 11.07 percent of the sales revenue. This was due to the slight decrease in average ethanol selling price of 9.55 percent but the cost of ethanol sales decreased by 15.02 percent.

(2) Gross profit of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 3,547.59 million, or 37 percent of the sales revenue, which increased from the same period last year with the gross profit of Baht 2,968.42 million or 33.64 percent of the sales revenue, due to the following reasons:

(2.1) Gross profit from coal business was 42.61 percent of the sales revenue, which increased from the same period last year with gross profit of 41.27 percent of the sales revenue. This was due to the decrease in average coal selling price of 2.14 percent but the cost of coal sales decreased by 4.38 percent; and

(2.2) Gross profit from ethanol business was 15.07 percent of the sales revenue, which increased from the same period last year with gross profit of 10.99 percent of the sales revenue. This was due to the decrease in average ethanol selling price of 7.02 percent but the cost of ethanol sales decreased by 11.28 percent.

Net Profit (Unit: Million Baht)	Quarter			Increase (Decrease)		9-Month Period (Jan. – Sep.)		Increase (Decrease) (%)
	2/2018	3/2018	3/2017	YoY (%)	QoQ (%)	2018	2017	
Profit from Coal Business	177.29	96.24	208.21	(53.78)	(45.72)	481.54	413.93	16.33
Profit from Ethanol Business	29.58	36.31	29.06	24.95	22.75	98.27	85.42	15.04
Other revenue and share of income from associated company	15.48	12.15	12.32	(1.38)	(21.51)	44.73	51.86	(13.75)
Net Profit	222.35	144.70	249.59	(42.02)	(34.92)	624.54	551.21	13.30
Net Earnings per Share (Baht per Share)	0.42	0.28	0.48	(42.02)	(34.92)	1.19	1.05	13.30

Remarks: Registered par value of Baht 1 per share

## NET PROFIT

(1) The net profit of the Company and subsidiary companies in the 3<sup>rd</sup> quarter 2018 totaled Baht 144.70 million, or net earnings per share of Baht 0.28, which decreased from the same period last year by Baht 104.89 million or net earnings per share of Baht 0.20 or 42.02 percent, due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 96.24 million or 66.51 percent of the total net profit, which decreased from the same period last year by Baht 111.97 million or 53.78 percent. Despite the increase in coal sales volume and coal selling price, but the cost of selling and administrative expenses of subsidiary companies in Indonesia increased as described above.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 36.31 million or 25.09 percent of the total net profit, which increased from the same period last year by Baht 7.25 million or 24.95 percent due to the decrease in molasses price, which is the raw material and a major cost, as described above; and

(1.3) Other revenue and share of income from associated company were Baht 12.15 million or 8.40 percent of the total net profit, which decreased from the same period last year by Baht 0.17 million or 1.38 percent due to the decrease in share of income from associated company.

(2) The net profit of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 624.54 million, or net earnings per share of Baht 1.19, which increased from the same period last year by Baht 73.33 million or net earnings per share of Baht 0.14 or 13.30 percent, due to the following reasons:

(2.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 481.54 million or 77.10 percent of the total net profit, which increased from the same period last year by Baht 67.61 million or 16.33 percent, which was in line with the increase in coal sales volume as described above.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 98.27 million or 15.73 percent of the total net profit, which increased from the same period last year by Baht 12.85 million or 15.04 percent due to the decrease in molasses price, which is the raw material and a major cost, as described above; and

(2.3) Other revenue and share of income from associated company were Baht 44.73 million or 7.17 percent of the total net profit, which decreased from the same period last year by Baht 7.13 million or 13.75 percent due to the decrease in share of income from associated company and revenue from miscellaneous items as described above.

### EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company and subsidiary companies in the first 9-month period of 2018 was Baht 2,113.33 million, which increased from the same period last year by Baht 201.53 million or 10.54 percent and EBITDA margin was at 21.96 percent, which increased from the same period last year by 1.82 percent.

(2) Net profit margin of the Company and subsidiary companies in the first 9-month period of 2018 was at 11.27 percent, which increased from the same period last year by 5.12 percent.

(3) Return on equity of the Company and subsidiary companies in the first 9-month period of 2018 was at 14.47 percent, which increased from the same period last year by 11.88 percent.

(4) Return on total assets of the Company and subsidiary companies in the first 9-month period of 2018 was at 11.79 percent, which increased from the same period last year by 6.48 percent. The return on fixed assets in the first 9-month period of 2018 was at 42.68 percent, which increased from the same period last year by 3.56 percent.

### STATEMENTS OF FINANCIAL POSITION

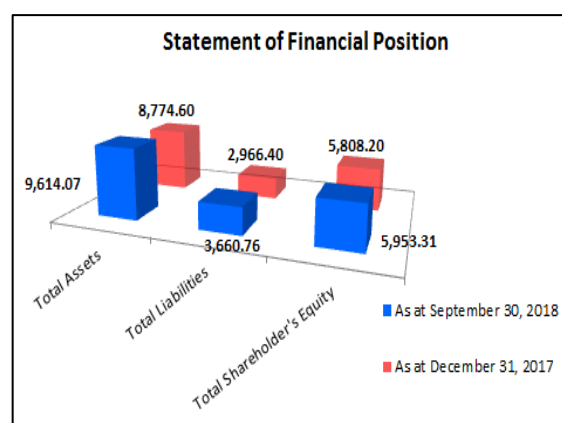
Description	Unit: Million Baht		Increase (Decrease)	
	As at September 30, 2018	As at December 31, 2017	Million Baht	%
<b>Total Assets</b>	<b>9,614.07</b>	<b>8,774.60</b>	<b>839.47</b>	<b>9.57</b>
<b>Total Liabilities</b>	<b>3,660.76</b>	<b>2,966.40</b>	<b>694.36</b>	<b>23.41</b>
<b>Total Shareholders' Equity</b>	<b>5,953.31</b>	<b>5,808.20</b>	<b>145.11</b>	<b>2.50</b>
<b>Book Value-Baht per Share</b>	<b>8.35</b>	<b>8.10</b>	<b>0.25</b>	<b>3.09</b>
<b>Remark: Registered par value of Baht 1 per share</b>				

**ASSETS:** The total assets of the Company and subsidiary companies as at September 30, 2018 increased from the same period last year by Baht 839.47 million or 9.57 percent, due to (1) current assets decreased by Baht 0.90 million or 0.02 percent, consisting of: (A) cash and cash equivalent decreased by Baht 527.34 million or 26.87 percent; (B) trade accounts receivable and other accounts receivable decreased by Baht 173.12 million or 13.65 percent; (C) inventories increased by Baht 472.64 million or 120.34 percent; and (D) other current assets most of which were corporate income tax and prepaid expenses, etc., increased by Baht 226.92 million or 29.07 percent; and (2) non-current assets, most of which were properties, buildings and equipment and the deferred transferred service fees increased by Baht 840.37 million or 19.23 percent.

**LIABILITIES:** The total liabilities of the Company and subsidiary companies as at September 30, 2018 increased from the same period last year by Baht 694.36 million or 23.41 percent, due to (1) trade accounts payable and other accounts payable increased by Baht 108.90 million or 19.55 percent (2) short-term and long-term loan of the subsidiary company to use as working capital for the procurement of raw material for ethanol production and as investment capital for construction of spent wash evaporation plant increased by Baht 560.06 million or 55.08 percent (3) accrued expenses, most of which were overburden removal expenses and freight cost, etc., increased by Baht 105.61 million or 13.22 percent; and (4) other liabilities, most of which were the lease agreement on coal transport jetty investment of the subsidiary company and provision for mine rehabilitation and allowance for long-term benefits of employees, deferred tax, etc., decreased by Baht 80.21 million or 13.51 percent.



**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company and subsidiary companies as at September 30, 2018 increased from the same period last year by Baht 145.11 million or 2.50 percent, resulting in an increase of the share's book value from Baht 8.10 per share to Baht 8.35 per share, an increase of Baht 0.25 per share or 3.09 percent. This was due to: (1) an increase in retained earnings of Baht 141.54 million or 4.72 percent according to the increase in net profit of Baht 624.54 million and dividend payment of Baht 483 million (2) a net decrease in translation adjustment in financial of Baht 11.58 million or 22.71 percent; and (3) an increase in minority shareholders' equity of Baht 15.15 million or 0.97 percent.



## CASH FLOWS

Description	Unit: Million Baht	
	First 9-month period of 2018	First 9-month period of 2017
Cash Flows from (used in) Operating Activities	<b>1,023.57</b>	<b>2,391.52</b>
Cash Flows from (used in) Investing Activities	<b>(1,383.57)</b>	<b>(795.18)</b>
Cash Flows from (used in) Financing Activities	<b>(214.39)</b>	<b>(1,066.57)</b>
Increase (Decrease) in Translation Adjustments in Financial Statements	<b>(16.46)</b>	<b>17.39</b>
Net Increase (Decrease) in Cash	<b>(590.85)</b>	<b>547.16</b>
Cash at the beginning of the period	<b>1,128.07</b>	<b>698.17</b>
<b>Cash at the end of the period</b>	<b>537.22</b>	<b>1,245.33</b>

(1) The net cash from operating activities of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 1,023.57 million, consisting of: (A) income before corporate income tax and interest expense of Baht 1,553.34 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets, most of which were mostly transactions concerning coal mining operations of the subsidiary companies in Indonesia of Baht 619.25 million; (C) an increase in operating assets of Baht 560.75 million; (D) an increase in operating liabilities of Baht 121.41 million; and (E) an increase in interest received of Baht 19.97 million and interest expense and taxes increased by Baht 729.65 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 1,383.57 million, consisting of: (A) properties, buildings and equipment increased by Baht 482.01 million, most of which were the coal transport jetty construction of the Company and wastewater treatment system construction of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 408.22 million; and (C) short-term capital investment and other items increased by Baht 493.34 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in the first 9-month period of 2018 totaled Baht 214.39 million, consisting of: (A) an increase in loan of Baht 557.50 million, (B) cash payment under investment lease agreement of Baht 139.75 million (C) dividend payment of Baht 623.71 million; and (D) a decrease in minority shareholders' equity of Baht 8.43 million.

## **ASSET MANAGEMENT CAPABILITY**

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at September 30, 2018 were 11.39 percent of total assets. The provisions of doubtful debts are considered based on review of receivable period and assessment of past debt collection experience. Accordingly, there was no provision of doubtful debt in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018.

(2) Inventory of the Company and subsidiary companies as at September 30, 2018 was 9 percent of total assets without deterioration of the products or impairment. Therefore, there was no allowance for impairment loss of inventory in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018.

(3) The Company's goodwill incurred from investment in the subsidiary company in Indonesia as at September 30, 2018 was accounted for 1.93 percent of total assets, by which the Company considered financial projection and impact in various aspects and found that it was not yet necessary for establishment of allowance for goodwill impairment from investment in the 3<sup>rd</sup> quarter 2018 and the first 9-month period of 2018.

## **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The total debt to equity ratio of the Company and subsidiary companies as at September 30, 2018 was as low as 0.61:1 with appropriate capital structure. The Company has cash generation and credit facilities sufficient for future investment projects.

(2) As at September 30, 2018, the current ratio of the Company and subsidiary companies was as high as 1.52 times in spite of a quick ratio of only 0.87 times but there was no financial liquidity problem. Nonetheless, the Company and subsidiary companies still have sufficient credit facilities for working capital in the future.

(3) The cash cycle of the Company and subsidiary companies in the first 9-month period of 2018 was only 38 days, which increased from the same period last year by 10 days. The average debt collection period was at 33 days, which increased from the same period last year by 8 days. The average inventory turnover was at 28 days, which increased from the same period last year by 7 days, but the average debt repayment period was at 23 days, increased from the same period last year by 5 days.

## **DEBT OBLIGATION**

The subsidiary company in a business of ethanol production and distribution for fuel purpose has obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows:

(1) The subsidiary company must maintain its debt to equity ratio (D/E ratio) not exceeding 2 times and debt service coverage ratio (DSCR) of no less than 1.25 times until the expiration of the loan agreement. The subsidiary company is able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan without any default.

(2) The lending bank has stipulated that the Company must maintain its shareholding proportion in the subsidiary company 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 sell or decrease its shareholding proportion in the subsidiary company to below 50 percent of the total number of shares.

(3) The lending bank has stipulated that the subsidiary company cannot pay dividend to its shareholders, including the Company, if the subsidiary company 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 the subsidiary company, etc. Accordingly, the subsidiary company has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

## FUTURE TREND

**Coal Business:** It is expected that the operating results of the coal business, which is a core business, will continue to be profitable in year 2018, in line with the increase in coal sale volume and coal selling prices as described above. Furthermore, the Company has invested in the new coal mine concession of PT. Pesona Khatulistiwa Nusantara ("PKN") in Indonesia in the 1<sup>st</sup> quarter 2018 by holding 40 percent of the paid-up capital in PKN, which has a 30-year coal concession period from 2009 to 2039 with remaining mineable coal reserve of 47 million metric tons (The new coal mine concession is the 3<sup>rd</sup> coal mine. At present, there are two coal mines in operation with remaining coal reserve of approximately 77 million metric tons). PKN has started its coal production since 2009. It is expected that the Company will be able to recognize revenue and operating results from this new coal mine concession in the 1<sup>st</sup> quarter 2019.

**Ethanol Business:** It is expected that the operating results of the ethanol business, which is a secondary core business, will continue to be profitable in year 2018, due to the decrease in molasses price, which is a raw material and a major cost as described above. There was also an improvement in production efficiency by using a mixture of raw sugar as the raw material in ethanol production, which has provided higher production yield and lower production cost. In 2017, there was the flood incident that caused damage and collapse of the wastewater treatment pond and a temporary halt of ethanol production and distribution for more than two months, incurring extraordinary expense for compensation payment to the affected villagers at approximately Baht 73.32 million. At present, the wastewater treatment pond has been rectified to be strong and stable, with reduction of wastewater level in each pond to obtain higher freeboard distance. It is expected that such problem will not happen again in year 2018.

**Overall Business:** The overall operating results in year 2018 are still expected to be in good standard and satisfactory. Especially the coal business, which is a core business, is expected to have a good net profit in line with the increase in coal sale volume and coal selling price. For the ethanol business, which is the secondary core business, should still be able to make good profit due to the decrease in molasses price, which is the raw material and a major cost. It is anticipated that the dividend payments will be paid to the shareholders regularly according to the established policy.