

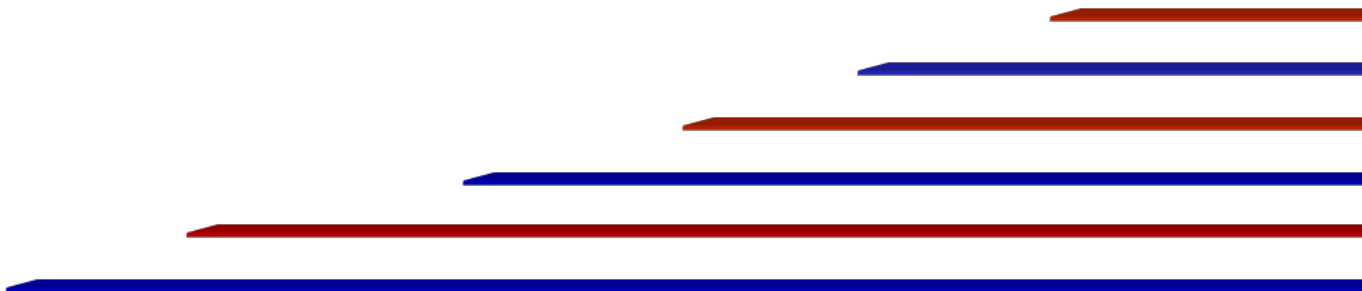


LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE CONSOLIDATED FINANCIAL STATEMENTS

OF THE 2nd QUARTER 2018 AND THE FIRST 6-MONTH PERIOD OF 2018



LANNA RESOURCES PUBLIC COMPANY LIMITED

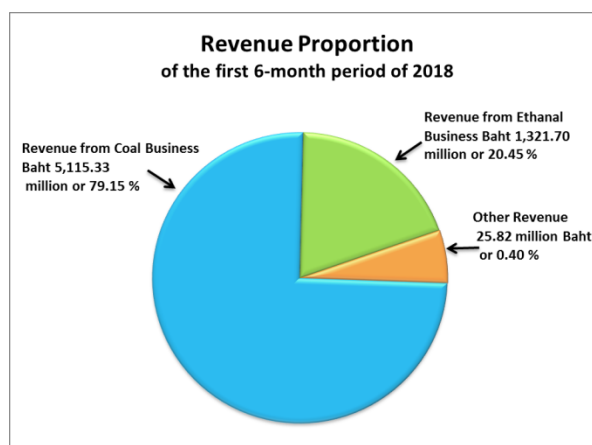
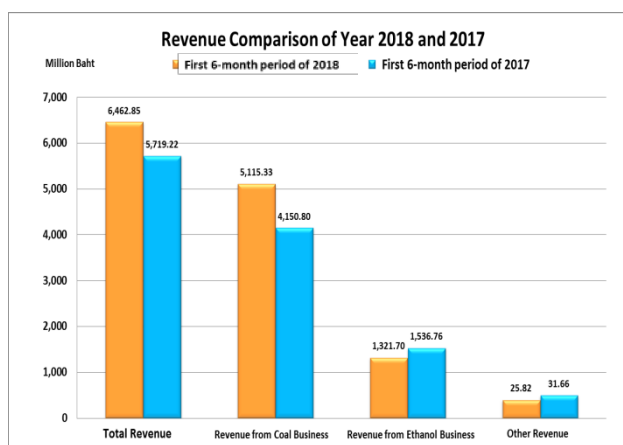
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter 2018 and the first 6-month period of 2018)

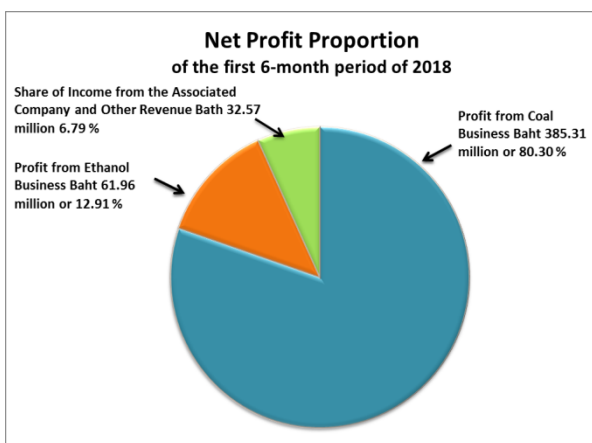
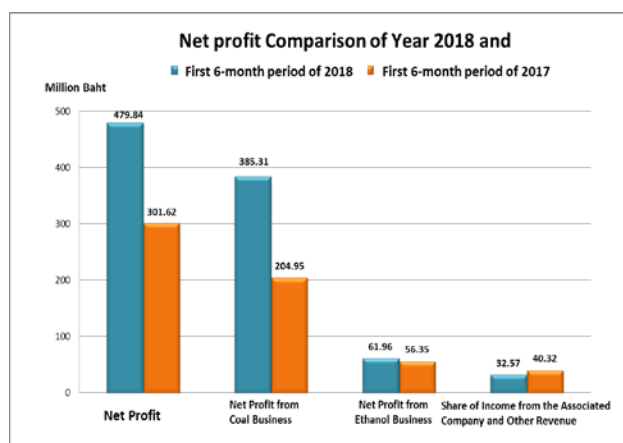
OVERALL OPERATING RESULTS

The overall operating results during the 2nd quarter 2018 and the first 6-month period of 2018 of the Company and subsidiary companies recorded an excellent growth in terms of revenue and net profit, especially coal business which is the Company's core business, in line with an increase in coal sales volume and coal selling price remaining at high level with positive trend. For ethanol business, regarded as a secondary core business, still continues to be profitable. Overall, the profitability is considered quite satisfactory.

The Company and subsidiary companies had total revenue in the 2nd quarter 2018 and the first 6-month period of 2018 of Baht 3,386.89 million and 6,462.85 million, which increased from the same period last year by Baht 472.45 million and 743.63 million or 16.21 and 13 percent. The revenue proportion from coal business, ethanol business and other revenue in the first 6-month period of 2018 accounted for 79.15, 20.45 and 0.40 percent, respectively.



The Company and subsidiary companies had total net profit during the 2nd quarter 2018 and the first 6-month period of 2018 of Baht 222.35 million and 479.84 million or net earnings per share of Baht 0.42 and 0.91, which increased from the same period last year by Baht 61.13 million and 178.22 million or 37.92 and 59.09 percent. The net profit proportion from coal business, ethanol business, and other revenue including share of income from the associated company in the first 6-month period of 2018 accounted for 80.30, 12.91 and 6.79 percent, respectively, with the net profit margin of 12.74 percent, an increase from the same period last year by 34.84 percent; the EBITDA margin of 23.65 percent, an increase from the same period last year by 16.66 percent; and the return on equity of 10.95 percent, an increase from the same period last year by 50.89 percent.



The overall financial position and liquidity of the Company and subsidiary companies as at June 30, 2018 were considered satisfactory. The current ratio was as high as 1.61 times but the total debt to total assets ratio was only 36.60 percent with debt to equity ratio of only 57.74 percent.

COAL BUSINESS: The revenue from coal business, which is the core business, in the 2nd quarter 2018 and the first 6-month period of 2018 totaled Baht 2,658.68 million and 5,115.33 million, which increased from the same period last year by Baht 538.71 million and 964.53 million or 25.41 and 23.24 percent, respectively, due to the increase in coal sales volume of 32.45 and 27.79 percent but the average coal selling price slightly decreased by 5.31 and 3.56 percent. The net profit derived from shareholding proportion of the Company in the 2nd quarter 2018 and the first 6-month period of 2018 was Baht 177.29 million and 385.31 million, increased from the same period last year by Baht 48.84 million and 180.36 million or 38.02 and 88 percent, respectively, which is considered that coal business still continues to be profitable.

ETHANOL BUSINESS: The revenue from ethanol business, which is the secondary core business, in the 2nd quarter 2018 and the first 6-month period of 2018 totaled Baht 715.41 million and 1,321.70 million, which decreased from the same period last year by Baht 71.49 million and 215.06 million or 9.09 and 13.99 percent, respectively. This was due to the decrease in ethanol sales volume from the same period last year by 0.72 and 8.69 percent, and the decrease in average ethanol selling price of 8.42 and 5.81 percent, respectively. The net profit derived from shareholding proportion of the Company in the 2nd quarter 2018 and the first 6-month period of 2018 was Baht 29.58 million and 61.96 million, which increased from the same period last year by Baht 9.53 million and 5.61 million or 47.53 and 9.96 percent, respectively, which remains profitable.

OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan. – Jun.)		Increase (Decrease) (%)
	1/2018	2/2018	2/2017	YoY (%)	QoQ (%)	2018	2017	
Revenue from Coal Sales	2,456.65	2,658.68	2,119.97	25.41	8.22	5,115.33	4,150.80	23.24
Revenue from Ethanol Sales	606.29	715.41	786.90	(9.09)	18.00	1,321.70	1,536.76	(13.99)
Other Revenue	13.02	12.80	7.57	69.09	(1.71)	25.82	31.66	(18.45)
Total Revenue	3,075.96	3,386.89	2,914.44	16.21	10.11	6,462.85	5,719.22	13.00

REVENUE

(1) Revenue of the Company and subsidiary companies in the 2nd quarter 2018 totaled Baht 3,386.89 million, which increased from the same period last year by Baht 472.45 million or 16.21 percent due to the following reasons:

(1.1) Revenue from coal business totaled Baht 2,658.68 million, which increased from the same period last year by Baht 538.71 million or 25.41 percent. This was due to the increase in coal sales volume as described above.

(1.2) Revenue from ethanol business totaled Baht 715.41 million, which decreased from the same period last year by Baht 71.49 million or 9.09 percent. This was due the decrease in ethanol sales volume and ethanol selling price as described above; and

(1.3) Other revenue totaled Baht 12.80 million, which increased from the same period last year by Baht 5.23 million or 69.09 percent. This was due to the increase in interest received and miscellaneous items.

(2) The revenue of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 6,462.85 million, which increased from the same period last year by Baht 743.63 million or 13 percent due to the following reasons:

(2.1) Revenue from coal business totaled Baht 5,115.33 million, which increased from the same period last year by Baht 964.53 million or 23.24 percent. This was due to the increase in coal sales volume as described above.

(2.2) Revenue from ethanol business totaled Baht 1,321.70 million, which decreased from the same period last year by Baht 215.06 million or 13.99 percent. This was due the decrease in ethanol sales volume and ethanol selling price as described above; and

(2.3) Other revenue totaled Baht 25.82 million, which decreased from the same period last year by Baht 5.84 million or 18.45 percent. This was due to the decrease in foreign exchange gain and miscellaneous items.

Expenses (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan. – Jun.)		Increase (Decrease) (%)
	1/2018	2/2018	2/2017	YoY (%)	QoQ (%)	2018	2017	
Coal Business								
Cost of sales	1,361.68	1,517.76	1,265.55	19.93	11.46	2,879.44	2,529.91	13.82
Selling and administrative expenses	556.66	644.59	535.70	20.33	15.80	1,201.25	1,018.52	17.94
Financial cost	6.18	6.73	8.85	(23.95)	8.90	12.91	16.90	(23.61)
Corporate income tax	174.79	178.42	84.68	110.70	2.07	353.21	196.66	79.60
Ethanol Business								
Cost of sales	509.12	621.91	720.38	(13.67)	22.15	1,131.03	1,368.48	(17.35)
Selling and administrative expenses	23.71	19.49	15.44	26.23	(17.80)	43.20	29.20	47.95
Financial cost	8.48	10.74	9.29	15.61	26.65	19.22	18.85	1.96
Corporate income tax	1.00	4.79	1.80	166.11	379.00	5.79	8.75	(33.83)

COAL BUSINESS EXPENSES

(1) Coal business expenses of the Company and subsidiary companies in the 2nd quarter 2018 totaled Baht 2,347.50 million, which increased from the same period last year by Baht 452.72 million or 23.89 percent, due to the following reasons:

(1.1) Cost of coal sales increased from the same period last year by Baht 252.21 million or 19.93 percent, due to the increase in coal sales volume of 32.45 percent, but the average cost of coal sales decreased by 9.45 percent.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 108.89 million or 20.33 percent according to the increase in coal sales volume.

(1.3) Financial expense decreased from the same period last year by Baht 2.12 million or 23.95 percent due to the decrease in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(1.4) Corporate income tax increased from the same period last year by Baht 93.74 million or 110.70 percent according to the increase in profit.

(2) Coal business expenses of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 4,446.81 million, which increased from the same period last year by Baht 684.82 million or 18.20 percent, due to the following reasons:

(2.1) Cost of coal sales increased from the same period last year by Baht 349.53 million or 13.82 percent, due to the increase in coal sales volume of 27.79 percent, but the average cost of coal sales decreased by 10.94 percent.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 182.73 million or 17.94 percent according to the increase in coal sales volume.

(2.3) Financial expense decreased from the same period last year by Baht 3.99 million or 23.61 percent due to the decrease in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(2.4) Corporate income tax increased from the same period last year by Baht 156.55 million or 79.60 percent according to the increase in profit.

ETHANOL BUSINESS EXPENSES

(1) Ethanol business expenses of the subsidiary company in the 2nd quarter 2018 totaled Baht 656.93 million, which decreased from the same period last year by Baht 89.98 million or 12.05 percent, due to the following reasons:

(1.1) Cost of ethanol sales decreased from the same period last year by 98.47 million or 13.67 percent. This was due to the decrease in ethanol sales volume and cost of ethanol sales of 0.72 and 13.05 percent, respectively, according to the decrease in price of the raw material, molasses, of 14.50 percent, which is a major cost.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 4.05 million or 26.23 percent due to the increase in salary, freight cost and public relations expenses.

(1.3) Financial expense increased from the same period last year by Baht 1.45 million or 15.61 percent due to the increase in short-term loan; 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 Investment Promotion for the Ethanol Production Line No. 1 was subject to corporate income tax of Baht 4.79 million, which increased from the same period last year by Baht 2.99 million or 166.11 percent according to the increase in profit.

(2) Ethanol business expenses of the subsidiary company in the first 6-month period of 2018 totaled Baht 1,199.24 million, which decreased from the same period last year by Baht 226.04 million or 15.86 percent, due to the following reasons:

(2.1) Cost of ethanol sales decreased from the same period last year by 237.45 million or 17.35 percent. This was due to the decrease in ethanol sales volume and cost of ethanol sales of 8.69 and 9.47 percent, respectively, according to the decrease in price of the raw material, molasses, of 11.37 percent, which is a major cost.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 14 million or 47.95 percent due to the additional compensation payment to the affected villagers from flood incident that caused damage and collapse of wastewater treatment pond in late 2017, as well as the increase in salary and freight cost.

(2.3) Financial expense increased from the same period last year by Baht 0.37 million or 1.96 percent due to the increase in short-term loan; 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 Investment Promotion for the Ethanol Production Line No. 1 was subject to corporate income tax of Baht 5.79 million, which decreased from the same period last year by Baht 2.96 million or 33.83 percent.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April - June)						
Year 2018						
Revenues from sales	2,658.68	100.00	715.41	100.00	3,374.09	100.00
Less Cost of sales	1,517.76	57.09	621.91	86.93	2,139.67	63.41
Gross Profit	1,140.92	42.91	93.50	13.07	1,234.42	36.59
Year 2017						
Revenues from sales	2,119.97	100.00	786.90	100.00	2,906.87	100.00
Less Cost of sales	1,265.55	59.70	720.38	91.55	1,985.93	68.32
Gross Profit	854.42	40.30	66.52	8.45	920.94	31.68
6-Month Period (January – June)						
Year 2018						
Revenues from sales	5,115.33	100.00	1,321.70	100.00	6,437.03	100.00
Less Cost of sales	2,879.44	56.29	1,131.03	85.57	4,010.47	62.30
Gross Profit	2,235.89	43.71	190.67	14.43	2,426.56	37.70
Year 2017						
Revenues from sales	4,150.80	100.00	1,536.76	100.00	5,687.56	100.00
Less Cost of sales	2,529.91	60.95	1,368.48	89.05	3,898.39	68.54
Gross Profit	1,620.89	39.05	168.28	10.95	1,789.17	31.46

GROSS PROFIT

(1) Gross profit of the Company and subsidiary companies in the 2nd quarter 2018 totaled Baht 1,234.42 million, or 36.59 percent of the sales revenue, which increased from the same period last year with the gross profit of Baht 920.94 million or 31.68 percent of the sales revenue, due to the following reasons:

(1.1) Gross profit from coal business was 42.91 percent of the sales revenue, which increased from the same period last year with gross profit of 40.30 percent of the sales revenue. This was due to the slight decrease in average coal selling price of 5.31 percent, while the cost of coal sales decreased by 9.45 percent; and

(1.2) Gross profit from ethanol business was 13.07 percent of the sales revenue, which increased from the same period last year with gross profit of 8.45 percent of the sales revenue. This was due to the slight decrease in average ethanol selling price of 8.42 percent, while the cost of ethanol sales decreased by 13.05 percent.

(2) Gross profit of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 2,426.56 million, or 37.70 percent of the sales revenue, which increased from the same period last year with the gross profit of Baht 1,789.17 million or 31.46 percent of the sales revenue, due to the following reasons:

(2.1) Gross profit from coal business was 43.71 percent of the sales revenue, which increased from the same period last year with gross profit of 39.05 percent of the sales revenue. This was due to the slight decrease in average coal selling price of 3.56 percent, while the cost of coal sales decreased by 10.94 percent; and

(2.2) Gross profit from ethanol business was 14.43 percent of the sales revenue, which increased from the same period last year with gross profit of 10.95 percent of the sales revenue. This was due to the slight decrease in average ethanol selling price of 5.81 percent, while the cost of ethanol sales decreased by 9.47 percent.

Net Profit (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan. – Jun.)		Increase (Decrease) (%)
	1/2018	2/2018	2/2017	YoY (%)	QoQ (%)	2018	2017	
Profit from Coal Business	208.02	177.29	128.45	38.02	(14.77)	385.31	204.95	88.00
Profit from Ethanol Business	32.38	29.58	20.05	47.53	(8.65)	61.96	56.35	9.96
Other revenue and share of income from associated company	17.09	15.48	12.72	21.70	(9.44)	32.57	40.32	(19.22)
Net Profit	257.49	222.35	161.22	37.92	(13.65)	479.84	301.62	59.09
Net Earnings per Share (Baht per Share)	0.49	0.42	0.31	37.92	(13.65)	0.91	0.57	59.09
Remarks: Registered par value of Baht 1 per share								

NET PROFIT

(1) The net profit of the Company and subsidiary companies in the 2nd quarter 2018 totaled Baht 222.35 million, or net earnings per share of Baht 0.42, which increased from the same period last year by Baht 61.13 million or net earnings per share of Baht 0.11 or 37.92 percent, due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 177.29 million or 79.73 percent of the total net profit, which increased from the same period last year by Baht 48.84 million or 38.02 percent. This was due to the increase in coal sales volume as described above.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 29.58 million or 13.30 percent of the total net profit, which increased from the same period last year by Baht 9.53 million or 47.53 percent due to the decrease in molasses price, which is a raw material and a major cost as described above; and

(1.3) Other revenue and share of income from associated company were Baht 15.48 million or 6.97 percent of the total net profit, which increased from the same period last year by Baht 2.76 million or 21.70 percent due to the increase in interest received and miscellaneous items as described above.

(2) The net profit of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 479.84 million, or net earnings per share of Baht 0.91, which increased from the same period last year by Baht 178.22 million or net earnings per share of Baht 0.34 or 59.09 percent, due to the following reasons:

(2.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 385.31 million or 80.30 percent of the total net profit, which increased from the same period last year by Baht 180.36 million or 88 percent. This was due to 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 61.96 million or 12.91 percent of the total net profit, which increased from the same period last year by Baht 5.61 million or 9.96 percent due to the decrease in molasses price, which is a raw material and a major cost as described above; and

(2.3) Other revenue and share of income from associated company were Baht 32.57 million or 6.79 percent of the total net profit, which decreased from the same period last year by Baht 7.75 million or 19.22 percent due to the decrease in share of income from associated company and 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 6-month period of 2018 was Baht 1,528.30 million, which increased from the same period last year by Baht 368.80 million or 31.81 percent and EBITDA margin was at 23.65 percent, which increased from the same period last year by 16.66 percent.

(2) Net profit margin of the Company and subsidiary companies in the first 6-month period of 2018 was at 12.74 percent, which increased from the same period last year by 34.84 percent.

(3) Return on equity of the Company and subsidiary companies in the first 6-month period of 2018 was at 10.95 percent, which increased from the same period last year by 50.89 percent.

(4) Return on total assets of the Company and subsidiary companies in the first 6-month period of 2018 was at 8.96 percent, which increased from the same period last year by 40.43 percent. The return on fixed assets in the first 6-month period of 2018 was at 30.82 percent, which increased from the same period last year by 22.38 percent.

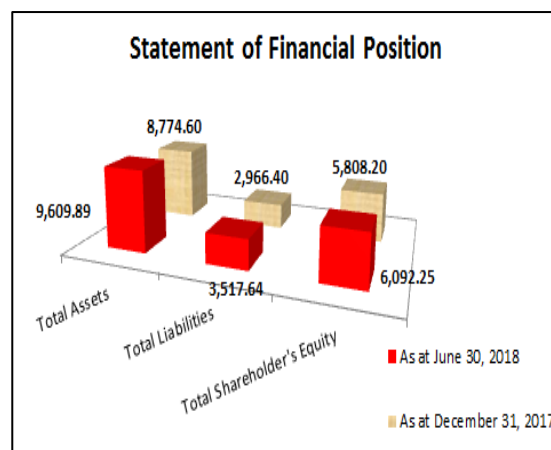
STATEMENTS OF FINANCIAL POSITION

Description	Unit: Million Baht		Increase (Decrease)	
	As at June 30, 2018	As at December 31, 2017	Million Baht	%
Total Assets	9,609.89	8,774.60	835.29	9.52
Total Liabilities	3,517.64	2,966.40	551.24	18.58
Total Shareholders' Equity	6,092.25	5,808.20	284.05	4.89
Book Value-Baht per Share	8.59	8.10	0.49	6.05
Remark: Registered par value of Baht 1 per share				

ASSETS: The total assets of the Company and subsidiary companies as at June 30, 2018 increased from the same period last year by Baht 835.29 million or 9.52 percent, due to (1) current assets increased by Baht 174.17 million or 3.95 percent, consisting of: (A) cash and cash equivalent decreased by Baht 396.91 million or 20.23 percent; (B) trade accounts receivable and other accounts receivable decreased by Baht 87.46 million or 6.90 percent; (C) inventories increased by Baht 324.50 million or 82.62 percent; and (D) other current assets most of which were prepaid corporate income tax, prepaid expenses, etc., increased by Baht 334.04 million or 42.79 percent; and (2) non-current assets, most of which were properties, buildings and equipment and the deferred transferred service fees increased by Baht 661.12 million or 15.13 percent.

LIABILITIES: The total liabilities of the Company and subsidiary companies as at June 30, 2018 increased from the same period last year by Baht 551.24 million or 18.58 percent, due to (1) trade accounts payable and other accounts payable increased by Baht 75.88 million or 13.62 percent (2) short-term loan of the subsidiary company as working capital for the procurement of raw material for ethanol production increased by Baht 644.46 million or 63.38 percent (3) accrued expenses, most of which were overburden removal expenses and freight cost, etc., decreased by Baht 108.03 million or 13.52 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 61.07 million or 10.29 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company and subsidiary companies as at June 30, 2018 increased from the same period last year by Baht 284.05 million or 4.89 percent, resulting in an increase of the share's book value from Baht 8.10 per share to Baht 8.59 per share, an increase of Baht 0.49 per share or 6.05 percent. This was due to: (1) an increase in retained earnings of Baht 233.09 million or 7.78 percent due to an increase in net profit of Baht 479.84 million and dividend payment of Baht 246.75 million (2) a net increase in translation adjustment in financial of Baht 23.17 million or 90.76 percent; and (3) an increase in minority shareholders' equity of Baht 27.79 million or 1.79 percent.



CASH FLOWS

Description	Unit: Million Baht	
	First 6-month period of 2018	First 6-month period of 2017
Cash Flows from (used in) Operating Activities	375.92	1,354.63
Cash Flows from (used in) Investing Activities	(680.19)	(445.67)
Cash Flows from (used in) Financing Activities	124.03	(670.19)
Increase (Decrease) in Translation Adjustments in Financial Statements	8.54	16.56
Net Increase (Decrease) in Cash	(171.70)	255.33
Cash at the beginning of the period	1,128.07	698.17
Cash at the end of the period	956.37	953.50

(1) The net cash from operating activities of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 375.92 million, consisting of: (A) income before corporate income tax and interest expense of Baht 1,182.56 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 370.43 million; (C) an increase in operating assets of Baht 576.76 million; (D) a decrease in operating liabilities of Baht 25.73 million; and (E) an increase in interest received of Baht 13.63 million and interest expense and taxes increased by Baht 588.21 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 680.19 million, consisting of: (A) properties, buildings and equipment increased by Baht 284.56 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 400.16 million; and (C) short-term capital investment and other items decreased by Baht 4.53 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in the first 6-month period of 2018 totaled Baht 124.03 million, consisting of: (A) an increase in loan of Baht 642.75 million, (B) cash payment under investment lease agreement of Baht 65.47 million (C) dividend payment of Baht 465.31 million; and (D) an increase in minority shareholders' equity of Baht 12.06 million.

ASSET MANAGEMENT CAPABILITY

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at June 30, 2018 were 12.29 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 2nd quarter 2018 and the first 6-month period of 2018.

(2) Inventory of the Company and subsidiary companies as at June 30, 2018 was 7.46 percent of total assets without deterioration of the products. Therefore, there was no allowance for impairment loss of inventory in the 2nd quarter 2018 and the first 6-month period of 2018.

(3) The Company's goodwill incurred from investment in the subsidiary company in Indonesia as at June 30, 2018 was accounted for 1.94 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 2nd quarter 2018 and the first 6-month period of 2018.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The total debt to equity ratio of the Company and subsidiary companies as at June 30, 2018 was as low as 0.58:1 with appropriate capital structure. The Company has cash generation and credit facilities sufficient for future investment projects.

(2) The current ratio and quick ratio of the Company and subsidiary companies as at June 30, 2018 were as high as 1.61 times and 0.97 times, respectively, which was still regarded as good liquidity.

(3) The cash cycle of the Company and subsidiary companies in the first 6-month period of 2018 was only 37 days, which increased from the same period last year by 3 days. The average debt collection period was at 34 days, which increased from the same period last year by 8 days. The average inventory turnover was at 25 days, which decreased from the same period last year by 1 day, but the average debt repayment period was at 22 days, increased from the same period last year by 4 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 with more profitability 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 1st quarter 2018 by holding 40 percent of the paid-up capital of 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 3rd 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 1st 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 flood incident that caused the damage and collapse of the wastewater treatment pond and a temporary halt of ethanol production and distribution for more than two months, incurring special 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. It is expected that the problem will not happen again in 2018.

Overall Business: The overall operating results in year 2018 are expected to be more profitable, especially coal business, which is a core business, having higher net profit in line with an increase in coal sale volume and coal selling price with positive trend. For the ethanol business, a secondary core business, still continues to make good profit as described above. It is expected that the dividend payments will be paid to the shareholders regularly according to the established policy.
