



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS



**FOR THE OPERATING RESULTS OF
THE 1ST QUARTER 2016**



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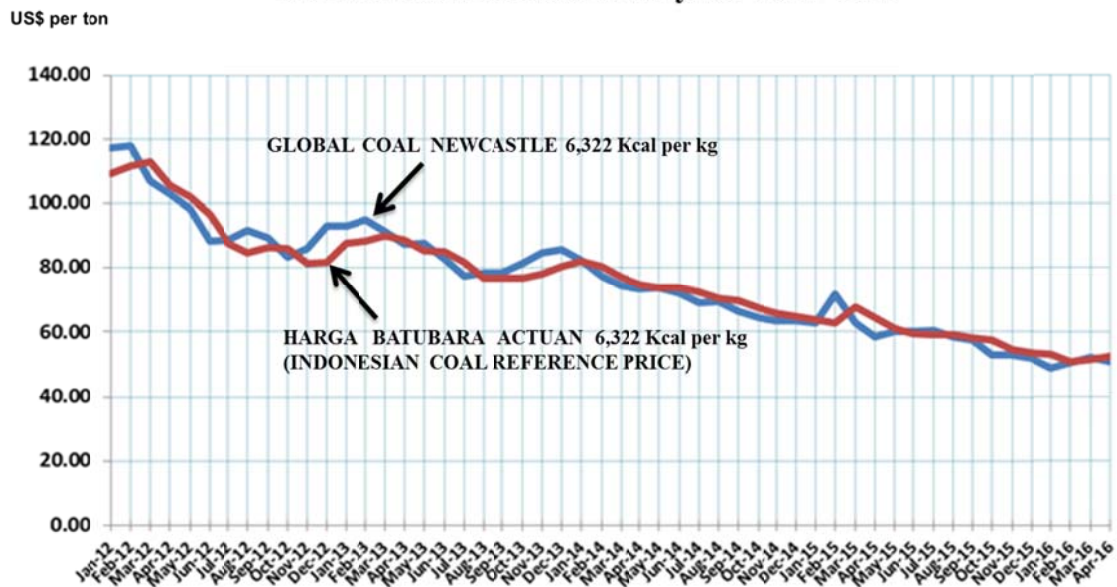
(For the Consolidated Financial Statements of the 1st Quarter 2016)

OVERALL OPERATING RESULTS

The Company's revenue in the 1st quarter 2016 was Baht 2,572.80 million, which decreased from the same period last year by Baht 325.41 million or 11.23 percent. This was due to the continuously falling coal price in global market, and the decrease of ethanol selling price in line with the downtrend of energy market. Regardless, the net profit derived from shareholding proportion of the Company in the 1st quarter 2016 was Baht 135.04 million, which increased from the same period last year by Baht 14.45 million or 11.98 percent due to an increase in foreign exchange gain.

COAL BUSINESS: The coal prices in global market have been continuously decreasing. The Company still employs mining cost reduction strategy and carefully selects the product mix with high price and profit.

Coal Price Movement from year 2012 - 2016



In summary, the revenue of the coal business in the 1st quarter 2016 was Baht 1,884.75 million, which decreased from the same period last year by Baht 311.01 million or 14.16 percent due to the decrease in coal sales volume and average selling price by 2.18 and 12.25 percent, respectively. The resulting net profit derived from shareholding proportion in the 1st quarter 2016 was Baht 45.64 million, a slight decrease from the same period last year by Baht 0.79 million or 1.70 percent. Regardless, while the operating results of the coal business declines, it remains continuously profitable.

ETHANOL BUSINESS: The ethanol sales volume in the 1st quarter 2016 increased from the same period last year by 4.53 percent, but the average ethanol selling price in the 1st quarter 2016 decreased from the same period last year by 10.37 percent. This was due to the fact that the global fuel price remained at low level. In summary, the revenue from the ethanol business in the 1st quarter 2016 was Baht 650.20 million, or a decrease from the same period last year by Baht 43.56 million or 6.28 percent. The net profit derived from shareholding proportion of the Company in the 1st quarter 2016 was Baht 45.23 million, or a decrease from the same period last year by Baht 14.03 million or 23.68 percent. The ethanol business has been continuously profitable as well as the coal business as mentioned above.

OPERATING RESULTS ANALYSIS

Revenue	1 st Quarter 2016		1 st Quarter 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Coal Business	1,884.75	73.26	2,195.76	75.76	(311.01)	(14.16)
Revenue from Ethanol Business	650.20	25.27	693.76	23.94	(43.56)	(6.28)
Other Revenue	37.85	1.47	8.69	0.30	29.16	335.56
Total Revenue	2,572.80	100.00	2,898.21	100.00	(325.41)	(11.23)

REVENUE: The Company's revenue in the 1st quarter 2016 totaled Baht 2,572.80 million, which decreased from the same period last year by Baht 325.41 million or 11.23 percent due to the following reasons:

(1) Revenue from coal business in the 1st quarter 2016 totaled Baht 1,884.75 million, which decreased from the same period last year by Baht 311.01 million or 14.16 percent. This was due to the decrease in coal sales volume and average selling price of 2.18 percent and 12.25 percent, respectively, in line with the downtrend of the global coal market.

(2) Revenue from ethanol business in the 1st quarter 2016 totaled Baht 650.20 million, which decreased from the same period last year by Baht 43.56 million or 6.28 percent. Despite an increase in ethanol sales volume by 4.53 percent, but the average ethanol selling price decreased by 10.37 percent due to the falling oil price.

(3) Other revenues in the 1st quarter 2016 totaled Baht 37.85 million, which increased from the same period last year by Baht 29.16 million or 335.56 percent due to the increase in foreign exchange gain.

Expenses	1 st Quarter 2016		1 st Quarter 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Coal Business						
Cost of Sales	1,323.49	70.22	1,504.21	68.51	(180.72)	(12.01)
Selling and Administrative Expenses	441.43	23.42	560.48	25.53	(119.05)	(21.24)
Financial Cost	1.50	0.08	4.94	0.22	(3.44)	(69.64)
Corporate Income Tax	46.74	2.48	63.63	2.90	(16.89)	(26.54)
Ethanol Business						
Cost of Sales	527.25	81.09	542.74	78.23	(15.49)	(2.85)
Selling and Administrative Expenses	13.67	2.10	9.80	1.41	3.87	39.49
Financial Cost	10.85	1.67	15.05	2.17	(4.20)	(27.91)
Corporate Income Tax	9.69	1.49	9.47	1.46	0.22	2.32

COAL BUSINESS EXPENSES: Coal business expenses in the 1st quarter 2016 totaled Baht 1,813.16 million, which decreased from the same period last year by Baht 320.10 million or 15.01 percent, due to the following reasons:

(1) Cost of coal sales in the 1st quarter 2016 decreased from the same period last year by Baht 180.72 million or 12.01 percent. This was due to the decrease in coal sales volume and average coal selling price of 2.18 percent and 10.05 percent, respectively.

(2) Selling and administrative expenses in the 1st quarter 2016 decreased from the same period last year by Baht 119.05 million or 21.24 percent due to the decrease in coal sales volume.

(3) Financial expenses in the 1st quarter 2016 decreased from the same period last year by Baht 3.44 million or 69.64 percent.

(4) Corporate income tax in the 1st quarter 2016 decreased from the same period last year by 16.89 million or 26.54 percent due to the decrease in profit.

ETHANOL BUSINESS EXPENSES: Ethanol business expenses in the 1st quarter 2016 totaled Baht 561.46 million, which decreased from the same period last year by Baht 15.60 million or 2.70 percent, due to the following reasons:

(1) Cost of ethanol sales in the 1st quarter 2016 decreased from the same period last year by 15.49 million or 2.85 percent. Despite the increase in ethanol sales volume of 4.53 percent, but the molasses price, which is a raw material and a major cost, decreased by 9.20 percent.

(2) Selling and administrative expenses in the 1st quarter 2016 increased from the same period last year by Baht 3.87 million or 39.49 percent. This was due to the increase in freight cost in line with the increase in ethanol sales volume.

(3) Financial expenses in the 1st quarter 2016 decreased from the same period last year by Baht 4.20 million or 27.91 percent due to loan repayment according to terms and repayment schedule in the loan agreement.

(4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the 1st quarter 2016, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Investment Promotion for the Ethanol Production Line No. 1 has been expired, with incurred corporate income tax for the 1st quarter 2016 of Baht 9.69 million, which increased from the same period last year by Baht 0.22 million or 2.32 percent.

Gross Profit	Coal Business		Ethanol Business		Total	
	Baht Million	%	Baht Million	%	Baht Million	%
1st Quarter 2016						
Revenues from Sales	1,884.75	100.00	650.20	100.00	2,534.95	100.00
Less Cost of Sales	1,323.49	70.22	527.25	81.09	1,850.74	73.01
Gross Profit	561.26	29.78	122.95	18.91	684.21	26.99
1st Quarter 2015						
Revenues from Sales	2,195.76	100.00	693.76	100.00	2,889.52	100.00
Less Cost of Sales	1,504.21	68.51	542.74	78.23	2,046.95	70.84
Gross Profit	691.55	31.49	151.02	21.77	842.57	29.16

GROSS PROFIT: The Company's gross profit in the 1st quarter 2016 was Baht 684.21 million, or gross profit margin of 26.99 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 842.57 million or gross profit margin of 29.16 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(1) Gross profit margin from coal business in the 1st quarter 2016 was 29.78 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 31.49 of

the sales revenue. This was due to the decrease in coal sales price of 12.25 percent, while the cost of coal sales decreased by only 10.05 percent.

(2) Gross profit margin from ethanol business in the 1st quarter 2016 was 18.91 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 21.77 percent of the sales revenue. This was due to the decrease in ethanol selling price of 10.37 percent, but the cost of ethanol sales decreased by 7.07 percent.

Net Profit	1 st Quarter 2016		1 st Quarter 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Profit from Coal Business	45.64	33.80	46.43	38.50	(0.79)	(1.70)
Profit form Ethanol Business	45.23	33.49	59.26	49.14	(14.03)	(23.68)
Other revenues and share of income from investment in associate company	44.17	32.71	14.90	12.36	29.27	196.44
Net Profit	135.04	100.00	120.59	100.00	14.45	11.98
Net Earnings per Share – Baht per Share	0.26		0.23		0.03	11.98

NET PROFIT: The Company's net profit in the 1st quarter 2016 was Baht 135.04 million, or net earnings per share of Baht 0.26. When compared with the same period last year, the net profit increased by Baht 14.45 million, or an increase of net earnings per share of Baht 0.03 or 11.98 percent, due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company in the 1st quarter 2016 was Baht 45.64 million or 33.80 percent of the total net profit, which slightly decreased from the same period last year by Baht 0.79 million or 1.70 percent. This was due to the decrease in coal sales volume and average selling price by 2.18 percent and 12.25 percent, respectively, in line with the coal market downtrend.

(2) Net profit from ethanol business derived from shareholding proportion of the Company in the 1st quarter 2016 was Baht 45.23 million or 33.49 percent of the total net profit, which decreased from the same period last year by Baht 14.03 million or 23.68 percent due to the decrease in the average ethanol selling price of 10.37 percent.

(3) Other revenues and share of income form investment in the associate company in the 1st quarter 2016 was Baht 44.17 million or 32.71 percent of the total net profit, which increased from the same period last year by Baht 29.27 million or 196.44 percent due to the increase in foreign exchange gain.

EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 1st quarter 2016 was Baht 378.94 million, which decreased from the same period last year by Baht 83.87 million or 18.12 percent.

(2) EBITDA margin in the 1st quarter 2016 was at 14.73 percent, which decreased from the same period last year by 7.25 percent.

(3) Net profit margin in the 1st quarter 2016 was at 7.95 percent, which increased from the same period last year by 19.35 percent.

(4) Return on equity in the 1st quarter 2016 was at 3.14 percent, which increased from the same period last year 10.13 percent.

(5) Return on total assets in the 1st quarter 2016 was at 2.33 percent, which increased from the same period last year by 7.03 percent. The return on fixed assets in the 1st quarter 2016 was at 9.30 percent, which decreased from the same period last year by 14.43 percent.

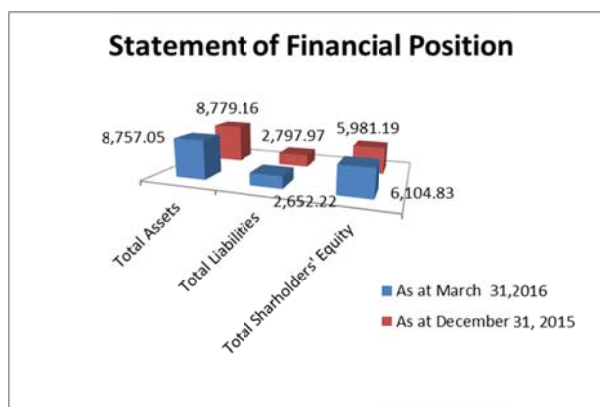
STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at March 31, 2016	As at December 31, 2015	Million Baht	%
Total Assets	8,757.05	8,779.16	(22.11)	(0.25)
Total Liabilities	2,652.22	2,797.97	(145.75)	(5.21)
Total Shareholders' Equity	6,104.83	5,981.19	123.64	2.07
Book Value-Baht per Share	8.29	8.11	0.18	2.22

Remark: Registered par value of Baht 1 per share

ASSETS: The Company's total assets as at March 31, 2016 decreased from end of year of 2015 by Baht 22.11 million or a decrease of 0.25 percent, consisting of:

(1) Current assets decreased from end of year of 2015 by Baht 67.24 million or 1.50 percent, due to (A) cash and cash equivalent increased by Baht 92.26 million or 6.11 percent; (B) trade accounts receivable and other accounts receivable increased by Baht 136.23 million or 16.77 percent; (C) inventories increased by Baht 52.82 million or 11.05 percent; and (D) other current assets decreased by Baht 348.55 million or 20.91 percent, most of which were advance payment of corporate income tax and advance payment of goods.



(2) Non-current assets, most of which were deposits with guarantee, increased from end of year of 2015 by Baht 45.13 million or 1.05 percent.

LIABILITIES: The Company's total liabilities as at March 31, 2016 decreased from end of year of 2015 by Baht 145.75 million or 5.21 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from end of year of 2015 by Baht 79.23 million or 19.29 percent

(2) Short-term and long-term loans decreased from end of year of 2015 by Baht 264.45 million or 17.46 percent due to loan repayment by subsidiary companies according to the terms and repayment schedule in the loan agreement.

(3) Accrued expenses, most of which were overburden removal expenses, freight cost, etc., increased from end of year of 2015 by Baht 18.64 million or 3.47 percent.

(4) Other liabilities, most of which were provision for mine rehabilitation and allowance for long-term benefits of employees, etc., increased from end of year of 2015 by Baht 20.83 million or 6.20 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2016 increased from end of year of 2015 by Baht 123.64 million or 2.07 percent, resulting in an increase of the share's book value from Baht 8.11 per share to Baht 8.29 per share, and increase of Baht 0.18 or 2.22 percent. This was due to: (A) an increase in net profit of Baht 135.04 million or 6.56 percent, (B) a net decrease in translation adjustment in financial statement and other items of Baht 38.83 million or 29.83 percent, and (D) an increase in minority shareholders' equity of Baht 27.43 million or 1.59 percent.

CASH FLOWS

Cash Flows	(Unit: Million Baht)	
	1 st Quarter 2016	1 st Quarter 2015
Cash Flows from (used in) Operating Activities	550.56	671.31
Cash Flows from (used in) Investing Activities	(234.11)	(117.25)
Cash Flows from (used in) Financing Activities	(306.94)	(310.72)
Increase (Decrease) in Translation Adjustments in Financial Statements	17.26	5.38
Net Increase (Decrease) in Cash	26.77	248.72
Cash at the beginning of the period	660.15	446.92
Cash at the end of the period	686.92	695.64

(1) The Company's net cash from operating activities in the 1st quarter 2016 was Baht 550.56 million, consisting of: (A) income before corporate income tax and interest expense of Baht 260.93 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 99.34 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 175.04 million due to a decrease in current assets; (D) an increase in operating liabilities of Baht 68.15 million due to an increase in trade accounts payable and in accrued expenses; and (E) an increase in interest income of Baht 3.13 million, despite an increase in interest expense and taxes of Baht 56.03 million.

(2) The Company's net cash used in investing activities in the 1st quarter 2016 was Baht 234.11 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 75.72 million, most of which was construction of a biogas power plant and molasses tanks of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 37.74 million; and (C) short-term cash investment and other items which increased by a total of Baht 120.65 million.

(3) The Company's net cash used in financing activities in the 1st quarter 2016 was Baht 306.94 million, including (A) a decrease in loan of Baht 264.92 million, (B) dividend payment of Baht 18.71 million, and (D) a decrease in minority shareholders' equity of Baht 23.31 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at March 31, 2016 were 10.83 percent of total asset. The provision of doubtful debts are considered based on a review of receivable period and assessment of past debt collection experience. Accordingly, the Company has experienced very little bad debt and has not found any unusual transaction and therefore, there was no provision for doubtful debt in the 1st quarter 2016.

(2) Inventory as at March 31, 2016 was 6.06 percent of total asset without deterioration of the assets and impact from the lower market price. Therefore, there was no allowance for impairment loss of inventory in the 1st quarter 2016.

(3) Goodwill from investment in the subsidiary company in Indonesia as at March 31, 2016 is accounted for 2.12 percent of total asset, of which the Company has considered financial projection and impact and found that that such subsidiary company could still be profitable and therefore there was no establishment of allowance for goodwill impairment from investment in the 1st quarter 2016.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as March 31, 2016 was as low as 0.43 to 1. By having appropriate capital structure, the Company should still be able to borrow additional capital for future investment projects as the interest coverage ratio in the 1st quarter 2016 is as high as 30.68 times. Therefore, the Company should not have any problem concerning with default of interest payment.

(2) The Company's current ratio and quick ratio as at March 31, 2016 were as high as 2.20 times and 1.26 times, respectively. In addition, the Company and its subsidiary companies have adequate credit line for working capital in the future and therefore have no cash liquidity problem.

(3) The Company's cash cycle in the 1st quarter 2016 was at 37 days, an increase from the same period last year of 5 days. The average debt collection period was at 31 days, an increase from the same period last year of 7 days. The average inventory turnover was at 25 days, a decrease from the same period last year of 5 days. However, the average debt repayment period was at 19 days or a decrease from the same period last year of 3 days, which is still within normal standard.

(4) Investment in coal business is still in downtrend period. Therefore, the Company has delayed additional investments. Regardless, the Company still has ample coal reserve in both coal concessions in Indonesia, which can still produce coal for several decades. Also, the Company always reviews its investment plan along with the changing situation.

(5) As for the ethanol business, investment in the construction of a hydrogen sulfide treatment system for the biogas system and the construction of a 3-MW biogas power plant were approximately Baht 56.24 million. Additionally, two molasses tanks were constructed with a capacity of 10,000 tons each, having an investment of approximately 43.75 million. This would allow the Company to sufficiently store molasses for ethanol production. The above projects are expected to be completed in the 2nd quarter 2016. The source of investment was from cash generation from the operation. The ethanol business still has good liquidity.

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 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.

IMPACT TO FUTURE OPERATIONS

Coal Business: It is expected that coal prices in 2016 will continue to move in low price level in line with the downtrend of global oil and coal markets. Accordingly, the Company has set out a strategy to reduce the production cost and choose appropriate product mix for coal distribution in line with the decline in coal prices to ensure continuous profitability. At the same time, the Company has reviewed its investment plan and is currently studying coal fired power plant projects in Thailand and Indonesia. The Company and its subsidiary companies have capability to invest in such projects, having its own coal mine concessions. Not only the coal production and distribution will be improved, the projects should also yield good investment return from such power plants, generating more revenue and profit in the future.

Ethanol Business: The Alternative Energy Development Plan B.E. 2558–2579 aims to increase ethanol consumption from 3.49 million liters per day in 2015 to 11.30 million liters per day in 2036. This should have a positive impact to overall ethanol industry. Regardless, the global oil market still fluctuates, which has an impact to the ethanol sales volume and selling price in the future. Accordingly, the Company has put in place a plan to improve ethanol production efficiency in order to reduce the cost and expenses and ensure continuous profitability.

Regardless, the Company and the subsidiary companies can still be profitable from both businesses in 2016, despite the downtrend of global oil and coal markets. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence to ensure good operating results in 2016 and proceed with regular dividend payment according to the established policy.
