



**LANNA RESOURCES PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**



**FOR THE CONSOLIDATED FINANCIAL STATEMENTS  
OF YEAR 2016**



# LANNA RESOURCES PUBLIC COMPANY LIMITED

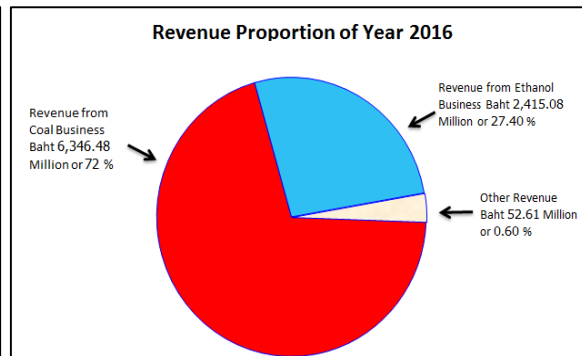
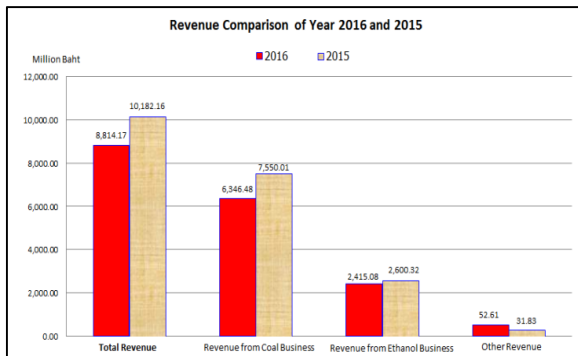
## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of Year 2016)

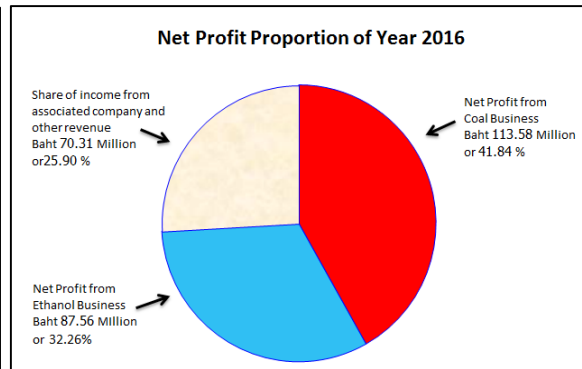
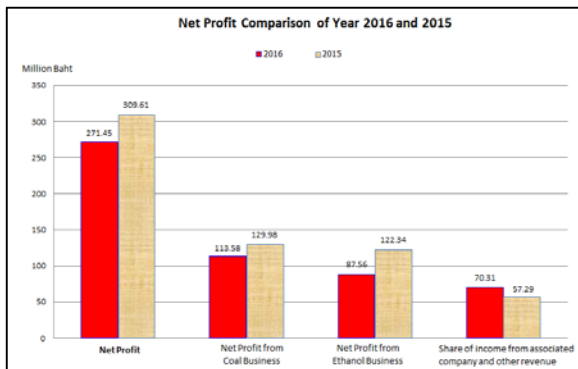
### OVERALL OPERATING RESULTS

The overall operating results of the Company and subsidiary companies during the past year 2016 are considered good and satisfactory despite the fact that global economic growth was below expectation and coal selling price, regarded as the core business of the Company, also remained at low level during the first half of 2016. Furthermore, for the secondary core business of ethanol, the ethanol selling price was lower in line with global oil price that remained low throughout the past year 2016. Nevertheless, the Company and its subsidiary companies were able to reduce cost of sales and other expenses, as well as choosing product mix corresponding to market condition for better profit margin.

The Company and subsidiary companies had total revenue of Baht 8,814.17 million. In comparison with year 2015, the revenue decreased by Baht 1,367.99 million or a decrease of 13.44 percent. The revenue proportion from coal business, ethanol business and other revenue accounted for 72, 27.40 and 0.60 percent, respectively.



The Company and subsidiary companies had total net profit during the past year 2016 of Baht 271.45 million or net earnings per share of Baht 0.52. In comparison with year 2015, the net profit decreased by Baht 38.16 million or a decrease of 12.33 percent. The net profit proportion from coal business, ethanol business and share of income from investment in associate company and other revenue accounted for 41.84, 32.26 and 25.90 percent, respectively.



The overall financial status and liquidity of the Company and subsidiary companies are considered excellent. The current ratio is at 1.99 times but the total debt to total assets ratio is only 31.93 percent with debt to equity ratio of only 46.92 percent.

**COAL BUSINESS:** Even though global coal prices had recovered during the second half of 2016 but it did not have much effect to the Company's operation and net profit as the Company had already entered into certain coal sales contracts in advance from the beginning of 2016. The Company was able to reduce cost of sales and other expenses, as well as choosing product mix corresponding to market condition for higher selling price and good profit margin. In summary, the Company and its subsidiaries had revenue from the coal business, which is the core business, totaling Baht 6,346.48 million, which decreased from the previous year by Baht 1,203.53 million or a decrease of 15.94 percent due to the coal sales volume and the average coal selling price decreased by 7.94 and 8.69 percent, respectively. The net profit derived from shareholding proportion of the Company in year 2016 was Baht 113.58 million, which decreased from the previous year by Baht 16.40 million or a decrease of 12.62 percent. Regardless, although the operating results of coal business have reduced, the profit is still maintained at satisfactory level.

**ETHANOL BUSINESS:** The total revenue from ethanol business in year 2016, which is the Company's secondary core business, was Baht 2,415.08 million, which decreased from the previous year by Baht 185.24 million or a decrease of 7.12 percent. Despite increase in ethanol sales volume from the previous year by 1.54 percent but the average ethanol selling price was still lower than the previous year by 8.54 percent. This was due to the fact that global oil price remained at low level. The net profit derived from shareholding proportion of the Company in year 2016 was Baht 87.56 million which decreased from the previous year by Baht 34.78 million or a decrease of 28.43 percent. The ethanol business still continues to be profitable as well as the coal business as mentioned above.

#### OPERATING RESULTS ANALYSIS

Revenue	Year 2016		Year 2015		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenue from Coal Sales	6,346.48	72.00	7,550.01	74.15	(1,203.53)	(15.94)
Revenue from Ethanol Sales	2,415.08	27.40	2,600.32	25.54	(185.24)	(7.12)
Other Revenue	52.61	0.60	31.83	0.31	20.78	65.28
<b>Total Revenue</b>	<b>8,814.17</b>	<b>100.00</b>	<b>10,182.16</b>	<b>100.00</b>	<b>(1,367.99)</b>	<b>(13.44)</b>

**REVENUE:** The Company's revenue in year 2016 totaled Baht 8,814.17 million, which decreased from the previous year by Baht 1,367.99 million or 13.44 percent due to the following reasons:

(1) Revenue from coal business totaled Baht 6,346.48 million, which decreased from the previous year by Baht 1,203.53 million or 15.94 percent. This was due to the decrease in coal sales volume and coal selling price as mentioned above.

(2) Revenue from ethanol business totaled Baht 2,415.08 million, which decreased from the previous year by Baht 185.24 million or 7.12 percent. This was due the decrease in ethanol selling price as mentioned above.

(3) Other revenues totaled Baht 52.61 million, which increased from the previous year by Baht 20.78 million or 65.28 percent due to the increase in foreign exchange gain of Baht 13.82 million and interest received and other items of Baht 6.96 million.

Expenses	Year 2016		Year 2015		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Coal Business</b>						
Cost of Sales	4,448.53	70.09	5,158.73	68.33	(710.20)	(13.77)
Selling and Administrative Expenses	1,603.36	25.26	2,054.41	27.21	(451.05)	(21.96)
Financial Cost	12.30	0.19	11.47	0.15	0.83	7.24
Corporate Income Tax	113.88	1.79	166.85	2.21	(52.97)	(31.75)
<b>Ethanol Business</b>						
Cost of Sales	2,111.84	87.44	2,244.29	86.31	(132.45)	(5.90)
Selling and Administrative Expenses	77.67	3.22	48.23	1.85	29.44	61.04
Financial Cost	37.80	1.57	50.06	1.93	(12.26)	(24.49)
Corporate Income Tax	12.94	0.54	15.71	0.60	(2.77)	(17.63)

**COAL BUSINESS EXPENSES** : Coal business expenses in year 2016 totaled Baht 6,178.07 million, which decreased from the previous year by Baht 1,213.39 million or 16.42 percent, due to the following reasons:

(1) Cost of coal sales decreased from the previous year by Baht 710.20 million or 13.77 percent. This was due to the decrease in coal sales volume and cost of sales by 7.94 and 6.33 percent, respectively.

(2) Selling and administrative expenses decreased from the previous year by Baht 451.05 million or 21.96 percent due to the decrease in coal sales volume.

(3) Financial expenses increased from the previous year by Baht 0.83 million or 7.24 percent due to an increase in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(4) Corporate income tax decreased from the previous year by Baht 52.97 million or 31.75 percent due to the decrease in profit.

**ETHANOL BUSINESS EXPENSES**: Ethanol business expenses in year 2016 totaled Baht 2,240.25 million, which decreased from the previous year by Baht 118.04 million or 5.01 percent, due to the following reasons:

(1) Cost of ethanol sales decreased from the previous year by 132.45 million or 5.90 percent. This was due to the increase in ethanol sales volume of 1.54 percent but the molasses price, which is a raw material and a major cost, decreased by 8.61 percent.

(2) Selling and administrative expenses increased from the previous year by Baht 29.44 million or 61.04 percent. This was due to the increase in ethanol sales volume as well as the Ethanol Production Line No. 1 had a temporary shutdown for repair and maintenance during the end of year 2016. Therefore, the expenses of Ethanol Production Line No. 1 were recorded as administrative expenses of Baht 16.06 million, and there was a provision for doubtful debt of Baht 6.87 million.

(3) Financial expenses decreased from the previous year by Baht 12.26 million or 24.49 percent due to loan repayment according to terms and repayment schedule in the loan agreement; and

(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 has been expired, with incurred corporate income tax of Baht 12.94 million, which decreased from the previous year by Baht 2.77 million or 17.63 percent due to the decrease in profit.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Year 2016</b>						
Revenues from Sales	6,346.48	100.00	2,415.08	100.00	8,761.56	100.00
<b>Less</b> Cost of Sales	4,448.53	70.09	2,111.84	87.44	6,560.37	74.88
<b>Gross Profit</b>	<b>1,897.95</b>	<b>29.91</b>	<b>303.24</b>	<b>12.56</b>	<b>2,201.19</b>	<b>25.12</b>
<b>Year 2015</b>						
Revenues from Sales	7,550.01	100.00	2,600.32	100.00	10,150.33	100.00
<b>Less</b> Cost of Sales	5,158.73	68.33	2,244.29	86.31	7,403.02	72.93
<b>Gross Profit</b>	<b>2,391.28</b>	<b>31.67</b>	<b>356.03</b>	<b>13.69</b>	<b>2,747.31</b>	<b>27.07</b>

**GROSS PROFIT:** The Company's gross profit in year 2016 totaled Baht 2,201.19 million, or 25.12 percent of the sales revenue. When compared with the gross profit of the previous year of Baht 2,747.31 million or 27.07 percent of the sales revenue, the gross profit decreased due to the following reasons:

(1) Gross profit from coal business was 29.91 percent of the sales revenue, which decreased from the previous year with gross profit of 31.67 of the sales revenue. This was due to the decrease in coal selling price of 8.69 percent, while the cost of coal sales decreased by only 6.33 percent; and

(2) Gross profit from ethanol business was 12.56 percent of the sales revenue, which decreased from the previous year with gross profit of 13.69 percent of the sales revenue. This was due to the decrease in ethanol selling price of 8.54 percent, but the cost of ethanol sales decreased by 7.34 percent.

Net Profit	Year 2016		Year 2015		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	113.58	41.84	129.98	41.98	(16.40)	(12.62)
Profit form Ethanol Business	87.56	32.26	122.34	39.51	(34.78)	(28.43)
Share of income from associated company and other revenues	70.31	25.90	57.29	18.51	13.02	22.73
<b>Net Profit</b>	<b>271.45</b>	<b>100.00</b>	<b>309.61</b>	<b>100.00</b>	<b>(38.16)</b>	<b>(12.33)</b>
<b>Net Earnings per share – Baht per share</b>	<b>0.52</b>		<b>0.59</b>		<b>(0.07)</b>	<b>(12.33)</b>

**NET PROFIT:** The Company's net profit in year 2016 totaled Baht 271.45 million, or net earnings per share of Baht 0.52. When compared with the previous year, the net profit decreased by Baht 38.16 million, or a decrease in net earnings per share of Baht 0.07 or 12.33 percent, due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company was Baht 113.58 million or 41.84 percent of the total net profit, which decreased from the previous year by Baht 16.40 million or 12.62 percent. This was due to the decrease in coal sales volume and coal selling price as mentioned above.

(2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 87.56 million or 32.26 percent of the total net profit, which decreased from the previous year by Baht 34.78 million or 28.43 percent due to the decrease in the ethanol selling price and the increase in administrative expenses as mentioned above; and

(3) Share of income from associated company and other revenues were Baht 70.31 million or 25.90 percent of the total net profit, which increased from previous year by Baht 13.02 million or 22.73 percent due to the increase in foreign exchange gain by Baht 13.82 million.

## EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in year 2016 was Baht 1,177.10 million, which decreased from the previous year by Baht 224.38 million or 16.01 percent and EBITDA margin was at 13.35 percent, which decreased from the previous year by 2.97 percent.

(2) Net profit margin in year 2016 was at 4.69 percent, which increased from the previous year by 4.34 percent.

(3) Return on equity in year 2016 was at 6.48 percent, which decreased from the previous year by 11.64 percent.

(4) Return on total assets in year 2016 was at 4.78 percent, which decreased from the previous year by 7.43 percent. The return on fixed assets in year 2016 was at 28.57 percent, which decreased from the previous year by 16.61 percent.

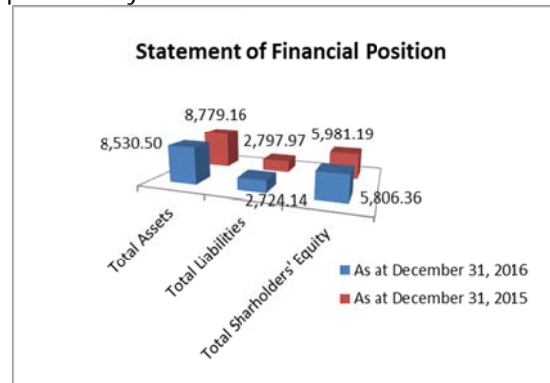
## STATEMENT OF FINANCIAL POSITION

Description	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2016	As at December 31, 2015	Million Baht	%
Total Assets	8,530.50	8,779.16	(248.66)	(2.83)
Total Liabilities	2,724.14	2,797.97	(73.83)	(2.64)
Total Shareholders' Equity	5,806.36	5,981.19	(174.83)	(2.92)
<b>Book Value-Baht per Share</b>	7.84	8.11	(0.27)	(3.33)
<b>Remark:</b> Registered par value of Baht 1 per share				

**ASSETS:** The total assets of the Company and subsidiary companies as at end of year 2016 decreased from the previous year by Baht 248.66 million or 2.83 percent, due to (1) Current assets decreased by Baht 502.62 million or 11.25 percent, consisting of: (A) cash and cash equivalent decreased by Baht 179.96 million or 11.91 percent; (B) trade accounts receivable and other accounts receivable decreased by Baht 195.77 million or 24.10 percent; (C) inventories decreased by Baht 17.75 million or 3.71 percent; and (D) other current assets most of which were **income tax**, prepaid expenses, etc., decreased by Baht 109.14 million or 6.55 percent. (2) Non-current assets, most of which were properties, buildings and equipment increased by Baht 253.96 million or 5.89 percent.

**LIABILITIES:** The total liabilities of the Company and subsidiary companies as at end of year 2016 decreased from the previous year by Baht 73.83 million or 2.64 percent, due to (1) Trade accounts payable and other accounts payable increased by Baht 70.66 million or 17.20 percent (2) Loan decreased by Baht 185.42 million or 12.24 percent (3) Accrued expenses, most of which were overburden removal expenses, freight cost, etc., decreased by Baht 237.07 million or 44.18 percent. (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, etc., which increased by Baht 278 million or 82.77 percent.

**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company and subsidiary companies as at end of year 2016 decreased from the previous by Baht 174.83 million or 2.92 percent, resulting in a decrease of the share's book value from Baht 8.11 per share to Baht 7.84 per share, a decrease of Baht 0.27 per share or 3.33 percent. This was due to: (1) a decrease in retained earnings of Baht 126.14 million or 4.43 percent, due to an increase in net profit of Baht 271.45 million but there was a dividend payment of Baht 393.75 million and a decrease of other items of Baht 3.84 million (2) a net decrease in translation adjustment in financial of Baht 12.68 million or 9.74 percent, and (3) a decrease in minority shareholders' equity of Baht 36.01 million or 2.09 percent.



### CASH FLOWS

Description	(Unit: Million Baht)	
	Year 2016	Year 2015
Cash Flows from (used in) Operating Activities	1,019.28	1,695.31
Cash Flows from (used in) Investing Activities	(236.36)	(570.71)
Cash Flows from (used in) Financing Activities	(757.79)	(820.40)
Increase (Decrease) in Translation Adjustments in Financial Statements	12.89	(90.97)
Net Increase (Decrease) in Cash	38.02	213.23
Cash at the beginning of the period	660.15	446.92
<b>Cash at the end of the period</b>	<b>698.17</b>	<b>660.15</b>

(1) The net cash from operating activities of the Company and subsidiary companies in year 2016 was totaled Baht 1,019.28 million, consisting of: (A) income before corporate income tax and interest expense of Baht 540.37 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 664.27 million, most of which were mostly transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 208.51 million; (D) a decrease in operating liabilities of Baht 299.02 million; and (E) an increase in interest received of Baht 22.37 million, but interest expense and taxes increase of Baht 117.22 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in year 2016 totaled Baht 236.36 million, consisting of: (A) properties, buildings and equipment, most of which was the coal transport jetty purchase transaction of the subsidiary company, which increased by Baht 199.25 million; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 294.82 million; and (C) short-term capital investment and other items decreased by a total of Baht 257.71 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in year 2016 totaled Baht 757.79 million, consisting of: (A) a decrease in loan of Baht 188.15 million, (B) dividend payment of Baht 561.69 million, and (C) a decrease in minority shareholders' equity of Baht 7.95 million.

### ASSET MANAGEMENT CAPABILITY

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at end of year 2016 were 7.23 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, the Company and subsidiary companies have experienced very

little bad debt, having established provision for doubtful debt only of Baht 0.14 million at the end of year 2016.

(2) Inventory of the Company and subsidiary companies as at end of year of 2016 was 5.40 percent of total assets, having established allowance for impairment loss of inventory in year 2016 of only Baht 4.02 million.

(3) The Company's goodwill caused by investment in the subsidiary company in Indonesia as at the end of year 2016 is accounted for 2.18 percent of total assets, of which the Company has 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 year 2016.

#### **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The Company's total debt to equity ratio as at the end of year 2016 was as low as 0.47 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 year 2016 was as high as 23.88 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 the end of year 2016 were as high as 1.99 times and 0.97 times, respectively. In addition, the Company and its subsidiary companies have adequate credit line for working capital in the future and therefore have no financial liquidity problem.

(3) The Company's cash cycle in year 2016 was at 34 days, an increase from the previous year of 1 day. The average debt collection period was at 29 days, an increase from the previous year of 2 days. The average inventory turnover was at 26 days, an increase from the previous year of 1 day. However, the average debt repayment period was at 21 days or an increase from the previous year of 2 days, which is still within normal standard.

#### **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:** Global coal prices started to rise continuously during the second half of year 2016. It is expected that the operating results of the coal business, which is the Company's core business, in year 2017 will increase and perform better than the past year 2016 in accordance with the increase in global coal prices as mentioned above. Meanwhile, the Company and its subsidiary companies are currently studying and prepared for investment in 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. Furthermore, the Company has been actively seeking to invest in additional coal concession projects which should generate more revenue and profit in long term.

**Ethanol Business:** It is expected that the operating results of the ethanol business which is the Company's secondary core business, will increase and perform better than the past year 2016 as the Ethanol Production Line No. 2 will start using both molasses and cassava as the raw materials instead of just using molasses as the past year 2016, which should provide higher production yield, resulting in a lower production cost and higher profit. Moreover, investment in the third ethanol production line is being studied, with production capacity of 200,000 liters per day. Furthermore, a feasibility study on business expansion into downstream ethanol derivative products has been conducted, as these value added products should yield higher revenue and profit in the future.

Regardless, the Company and the subsidiary companies can still be profitable from both businesses, despite fluctuation of global coal and oil markets. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence and caution to ensure good operating results in year 2017 and proceed with regular dividend payments to shareholders according to the established policy.

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