



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS



**FOR THE CONSOLIDATED FINANCIAL STATEMENTS
OF THE 1ST QUARTER 2017**



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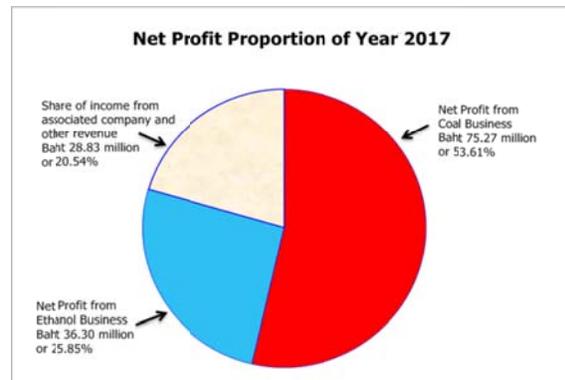
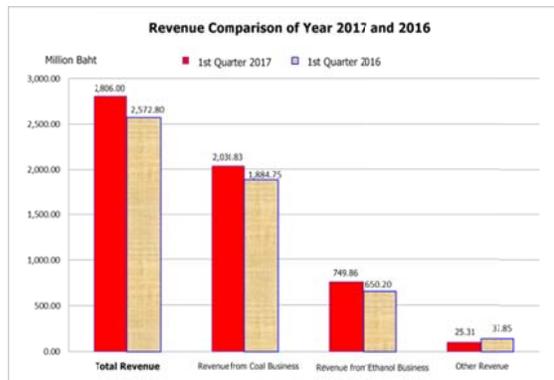
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 1st Quarter 2017)

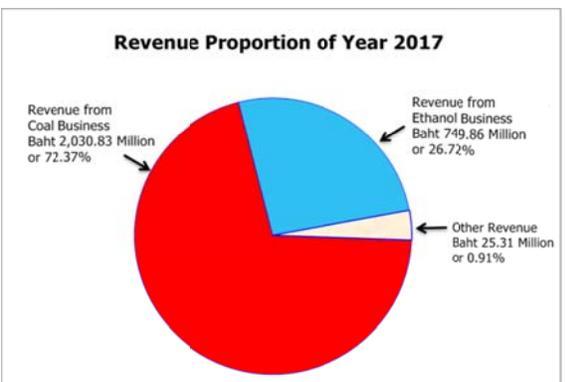
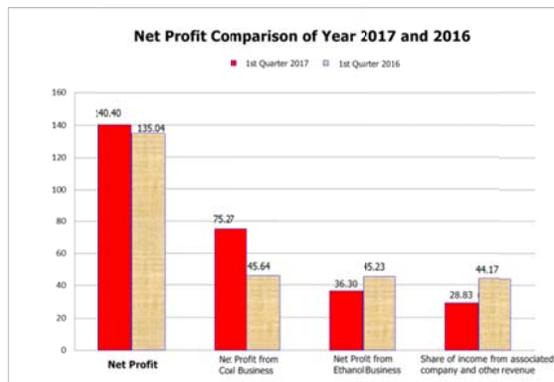
OVERALL OPERATING RESULTS

The overall operating results of the Company and subsidiary companies during the 1st quarter 2017 are considered better the net profit increased 3.97 percent and improving due to an increase in coal selling price, which is the Company's core business, resulting in an increase in net profit from the previous year by 64.92 percent. Despite the increase in ethanol selling price, regarded a secondary core business, but molasses price, which is a main raw material of ethanol production, also increased, resulting in a decrease in the net profit of ethanol business from the previous year by 19.74 percent. Nevertheless, the Company and its subsidiary companies have made efforts 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 in the 1st quarter 2017 of Baht 2,806 million. In comparison with the same period last year, the revenue increased by Baht 233.20 million or 9.06 percent. The revenue proportion from coal business, ethanol business and other revenue accounted for 72.37, 26.72 and 0.91 percent, respectively.



The Company and subsidiary companies had total net profit during the 1st quarter 2017 of Baht 140.40 million or net earnings per share of Baht 0.27. In comparison with the same period last year, the net profit increased by Baht 5.36 million or 3.97 percent. The net profit proportion from coal business, ethanol business, and share of income from the associated company and other revenue accounted for 53.61, 25.85 and 20.54 percent, respectively.



The overall financial status and liquidity of the Company and subsidiary companies in the 1st quarter 2017 were considered excellent. The current ratio is at 1.96 times but the total debt to total assets ratio was only 32.38 percent with debt to equity ratio of only 47.89 percent.

COAL BUSINESS: Global coal prices had been rising since the second half of the past year 2016, resulting in improved net profit of the Company and subsidiary companies in the 1st quarter 2017. The revenue from the coal business, which is the core business, in the 1st quarter 2017 totaled Baht 2,030.83 million, which increased from the same period last year by Baht 146.08 million or 7.75 percent, despite the decrease in coal sales volume of 17.55 percent but the average coal selling price increased by 30.69 percent. The net profit derived from shareholding proportion of the Company in the 1st quarter 2017 was Baht 75.27 million, which increased from the same period last year by Baht 29.63 million or 64.92 percent.

ETHANOL BUSINESS: The total revenue in the 1st quarter 2017 from ethanol business, which is the Company's secondary core business, was Baht 749.86 million, which increased from the same period last year by Baht 99.66 million or 15.33 percent. This was due to an increase in ethanol sales volume and average ethanol selling price from the same period last year by 6.22 and 8.62 percent, respectively. The demand of ethanol increased, but molasses price, which is the main raw material for ethanol production, increased by 16.73 percent due to drought, resulting in the decrease of sugarcane yield. Therefore, the net profit derived from shareholding proportion of the Company in the 1st quarter 2017 was Baht 36.30 million, which decreased from the same period last year by Baht 8.93 million or 19.74 percent. However, the ethanol business still continues to be profitable as well as the coal business as mentioned above.

OPERATING RESULTS ANALYSIS

| Revenue | 1st Quarter 2017 | | 1st Quarter 2016 | | Increase (Decrease) | |
|----------------------------|------------------|---------------|------------------|---------------|---------------------|-------------|
| | Million Baht | % | Million Baht | % | Million Baht | % |
| Revenue from Coal Sales | 2,030.83 | 72.37 | 1,884.75 | 73.26 | 146.08 | 7.75 |
| Revenue from Ethanol Sales | 749.86 | 26.72 | 650.20 | 25.27 | 99.66 | 15.33 |
| Other Revenue | 25.31 | 0.91 | 37.85 | 1.47 | (12.54) | (33.13) |
| Total Revenue | 2,806.00 | 100.00 | 2,572.80 | 100.00 | 233.20 | 9.06 |

REVENUE: The revenue of the Company and subsidiary companies in the 1st quarter 2017 totaled Baht 2,806 million, which increased from the same period last year by Baht 233.20 million or 9.06 percent due to the following reasons:

(1) Revenue from coal business totaled Baht 2,030.83 million, which increased from the same period last year by Baht 146.08 million or 7.75 percent. Despite the decrease in coal sales volume but average coal selling price increased as mentioned above.

(2) Revenue from ethanol business totaled Baht 749.86 million, which increased from the same period last year by Baht 99.66 million or 15.33 percent. This was due the increase in ethanol sales volume and ethanol selling price as mentioned above.

(3) Other revenue totaled Baht 25.31 million, which decreased from the same period last year by Baht 12.54 million or 33.13 percent due to the decrease in foreign exchange gain of Baht 27.89 million and increase in interest received and other items of Baht 15.35 million.

| Expenses | 1st Quarter 2017 | | 1st Quarter 2016 | | Increase (Decrease) | |
|-------------------------------------|------------------|-------|------------------|-------|---------------------|---------|
| | Million Baht | % | Million Baht | % | Million Baht | % |
| Coal Business | | | | | | |
| Cost of Sales | 1,264.37 | 62.26 | 1,323.49 | 70.22 | (59.12) | (4.47) |
| Selling and Administrative Expenses | 484.02 | 23.83 | 441.43 | 23.42 | 42.59 | 9.65 |
| Financial Cost | 8.05 | 0.40 | 1.50 | 0.08 | 6.55 | 436.67 |
| Corporate Income Tax | 112.01 | 5.52 | 46.74 | 2.48 | 65.27 | 139.64 |
| Ethanol Business | | | | | | |
| Cost of Sales | 648.10 | 86.43 | 527.25 | 81.09 | 120.85 | 22.92 |
| Selling and Administrative Expenses | 13.77 | 1.84 | 13.67 | 2.10 | 0.10 | 0.73 |
| Financial Cost | 9.56 | 1.27 | 10.85 | 1.67 | (1.29) | (11.89) |
| Corporate Income Tax | 6.93 | 0.92 | 9.69 | 1.49 | (2.76) | (28.48) |

COAL BUSINESS EXPENSES : Coal business expenses in the 1st quarter 2017 totaled Baht 1,868.45 million, which increased from the same period last year by Baht 55.29 million or 3.05 percent, due to the following reasons:

(1) Cost of coal sales decreased from the same period last year by Baht 59.12 million or 4.47 percent, despite the decrease in coal sales volume by 17.55 percent but the average cost of coal sales increased by 15.87 percent.

(2) Selling and administrative expenses increased from the same period last year by Baht 42.59 million or 9.65 percent due to the increase in coal selling price.

(3) Financial expenses increased from the same period last year by Baht 6.55 million or 436.67 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 increased from the same period last year by Baht 65.27 million or 139.64 percent due to the increase in profit.

ETHANOL BUSINESS EXPENSES: Ethanol business expenses in the 1st quarter 2017 totaled Baht 678.36 million, which increased from the same period last year by Baht 116.90 million or 20.82 percent, due to the following reasons:

(1) Cost of ethanol sales increased from the same period last year by 120.85 million or 22.92 percent. This was due to the increase in ethanol sales volume and the molasses price, which is a raw material and a major cost, of 6.22 and 16.73 percent, respectively.

(2) Selling and administrative expenses increased from the same period last year by Baht 0.10 million or 0.73 percent due to the increase in ethanol sales volume.

(3) Financial expenses decreased from the same period last year by Baht 1.29 million or 11.89 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 6.93 million, which decreased from the same period last year by Baht 2.76 million or 28.48 percent due to the decrease in profit.

| Gross Profit | Coal Business | | Ethanol Business | | Total | |
|-------------------------|---------------|--------------|------------------|--------------|---------------|--------------|
| | Million Baht | % | Million Baht | % | Million Baht | % |
| 1st Quarter 2017 | | | | | | |
| Revenues from Sales | 2,030.83 | 100.00 | 749.86 | 100.00 | 2,780.69 | 100.00 |
| Less Cost of Sales | 1,264.37 | 62.26 | 648.10 | 86.43 | 1,912.47 | 68.78 |
| Gross Profit | 766.46 | 37.74 | 101.76 | 13.57 | 868.22 | 31.22 |
| 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 |

GROSS PROFIT: The Company's gross profit in the 1st quarter 2017 totaled Baht 868.22 million, or 31.22 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of Baht 684.21 million or 26.99 percent of the sales revenue, due to the following reasons:

(1) Gross profit from coal business was 37.74 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of 29.78 of the sales revenue. This was due to the increase in average coal selling price of 30.69 percent, while the cost of coal sales increased by only 15.87 percent; and

(2) Gross profit from ethanol business was 13.57 percent of the sales revenue from the decrease in sales as compared with the same period last year with gross profit of 18.91 percent of the sales revenue. Despite the increase in average ethanol selling price of 8.62 percent, but the cost of ethanol sales increased by 15.73 percent.

| Net Profit | 1st Quarter 2017 | | 1st Quarter 2016 | | Increase (Decrease) | |
|---|------------------|---------------|------------------|---------------|---------------------|-------------|
| | Million Baht | % | Million Baht | % | Million Baht | % |
| Profit from Coal Business | 75.27 | 53.61 | 45.64 | 33.80 | 29.63 | 64.92 |
| Profit form Ethanol Business | 36.30 | 25.85 | 45.23 | 33.49 | (8.93) | (19.74) |
| Share of income from associated company and other revenue | 28.83 | 20.54 | 44.17 | 32.71 | (15.34) | (34.73) |
| Net Profit | 140.40 | 100.00 | 135.04 | 100.00 | 5.36 | 3.97 |
| Net Earnings per share – Baht per share | 0.27 | | 0.26 | | 0.01 | 3.97 |

NET PROFIT: The net profit of the Company and subsidiary companies in the 1st quarter 2017 totaled Baht 140.40 million, or net earnings per share of Baht 0.27, which increased from the same period last year by Baht 5.36 million or an increase in net earnings per share of Baht 0.01 or 3.97 percent, due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company was Baht 75.27 million or 53.61 percent of the total net profit, which increased from the same period last year by Baht 29.63 million or 64.92 percent. This was due to the increase in the average coal selling price as mentioned above.

(2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 36.30 million or 25.85 percent of the total net profit, which decreased from the same period last year by Baht 8.93 million or 19.74 percent due to the increase in average ethanol cost of sales as mentioned above; and

(3) Share of income from associated company and other revenue were Baht 28.83 million or 20.54 percent of the total net profit, which decreased from the same period last year by Baht 15.34 million or 34.73 percent due to the decrease in foreign exchange gain.

EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company and subsidiary companies in the 1st quarter 2017 was Baht 601.08 million, which increased from the same period last year by Baht 222.14 million or 58.62 percent and EBITDA margin was at 21.39 percent, which increased from the same period last year by 45.20 percent.

(2) Net profit margin of the Company and subsidiary companies in the 1st quarter 2017 was at 9.35 percent, which increased from the same period last year by 17.60 percent.

(3) Return on equity of the Company and subsidiary companies in the 1st quarter 2017 was at 3.38 percent, which increased from the same period last year by 7.65 percent.

(4) Return on total assets of the Company and subsidiary companies in the 1st quarter 2017 was at 3.05 percent, which increased from the same period last year by 30.79 percent. The return on fixed assets in the 1st quarter 2017 was at 12.77 percent, which increased from the same period last year by 37.35 percent.

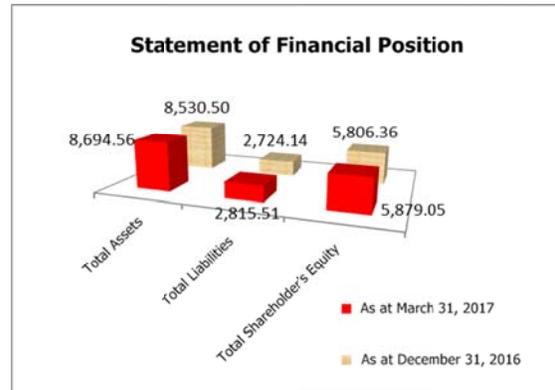
STATEMENT OF FINANCIAL POSITION

| Description | Unit: Million Baht | | Increase (Decrease) | |
|---|----------------------|-------------------------|---------------------|-------------|
| | As at March 31, 2017 | As at December 31, 2016 | Million Baht | % |
| Total Assets | 8,694.56 | 8,530.50 | 164.06 | 1.92 |
| Total Liabilities | 2,815.51 | 2,724.14 | 91.37 | 3.35 |
| Total Shareholders' Equity | 5,879.05 | 5,806.36 | 72.69 | 1.25 |
| Book Value-Baht per Share | 8.00 | 7.84 | 0.16 | 2.04 |
| Remark: Registered par value of Baht 1 per share | | | | |

ASSETS: The total assets of the Company and subsidiary companies as at March 31, 2017 increased from end of year 2016 by Baht 164.06 million or 1.92 percent, due to (1) Current assets increased by Baht 240.34 million or 6.06 percent, consisting of: (A) cash and cash equivalent increased by Baht 224.17 million or 16.84 percent; (B) trade accounts receivable and other accounts receivable increased by Baht 325.05 million or 52.72 percent; (C) inventories increased by Baht 359.92 million or 78.18 percent; and (D) other current assets most of which were prepaid corporate income tax, prepaid expenses, etc., decreased by Baht 668.80 million or 42.93 percent; and (2) Non-current assets, most of which were properties, buildings and equipment decreased by Baht 76.28 million or 1.67 percent.

LIABILITIES: The total liabilities of the Company and subsidiary companies as at March 31, 2017 increased from end of year 2016 by Baht 91.37 million or 3.35 percent, due to (1) Trade accounts payable and other accounts payable decreased by Baht 15.05 million or 3.13 percent (2) Loan decreased by Baht 125.62 million or 9.45 percent (3) Accrued expenses, most of which were overburden removal expenses and freight cost, etc., increased by Baht 293.05 million or 97.82 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, etc., decreased by Baht 61.01 million or 9.94 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company and subsidiary companies as at March 31, 2017 increased from end of year 2016 by Baht 72.69 million or 1.25 percent, resulting in an increase of the share's book value from Baht 7.84 per share to Baht 8.00 per share, an increase of Baht 0.16 per share or 2.04 percent. This was due to: (1) an increase in retained earnings of Baht 140.40 million or 7.31 percent (2) a net decrease in translation adjustment in financial of Baht 60.63 million or 51.61 percent; and (3) a decrease in minority shareholders' equity of Baht 7.08 million or 0.42 percent.



CASH FLOWS

| Description | (Unit: Million Baht) | |
|--|------------------------------|------------------------------|
| | 1 st Quarter 2017 | 1 st Quarter 2016 |
| Cash Flows from (used in) Operating Activities | 675.86 | 550.56 |
| Cash Flows from (used in) Investing Activities | (247.12) | (234.11) |
| Cash Flows from (used in) Financing Activities | (255.82) | (306.94) |
| Increase (Decrease) in Translation Adjustments in Financial Statements | 13.76 | 17.26 |
| Net Increase (Decrease) in Cash | 186.68 | 26.77 |
| Cash at the beginning of the period | 698.17 | 660.15 |
| Cash at the end of the period | 884.85 | 686.92 |

(1) The net cash from operating activities of the Company and subsidiary companies in the 1st quarter 2017 totaled Baht 675.83 million, consisting of: (A) income before corporate income tax and interest expense of Baht 381.65 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 218.55 million, most of which were mostly transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 65.25 million; (D) a decrease in operating liabilities of Baht 192.90 million; and (E) an increase in interest received of Baht 4.45 million but interest expense and taxes increased by Baht 56.44 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in the 1st quarter 2017 totaled Baht 247.12 million, consisting of: (A) properties, buildings and equipment increased by Baht 56.72 million, most of which were the coal transport jetty purchase transaction and construction of gas treatment system of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 108.20 million; and (C) short-term capital investment and other items increased by Baht 82.20 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in the 1st quarter 2017 totaled Baht 255.82 million, consisting of: (A) a decrease in loan of Baht 126.43 million, (B) dividend payment of Baht 93.15 million, and (C) a decrease in minority shareholders' equity of Baht 36.24 million.

ASSET MANAGEMENT CAPABILITY

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at March 31, 2017 were 10.83 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 as at March 31, 2017 of only Baht 0.14 million.

(2) Inventory of the Company and subsidiary companies as at March 31, 2017 was 9.43 percent of total assets without deterioration of the products. Therefore, there was no allowance for impairment loss of inventory in the 1st quarter 2017.

(3) The Company's goodwill caused by investment in the subsidiary company in Indonesia as at March 31, 2017 was accounted for 2.14 percent of total assets, of 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 1st quarter 2017.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at March 31, 2017 was as low as 0.48:1 with appropriate capital structure. The Company is still able to borrow additional capital for future investment projects as the interest coverage ratio in the 1st quarter 2017 was as high as 46.13 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, 2017 were as high as 1.96 times and 1.16 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 the 1st quarter 2017 was at 36 days, which decreased from the same period last year by 1 day. The average debt collection period was at 25 days, which decreased from the same period last year by 6 days. The average inventory turnover was at 30 days, which increased from the same period last year by 5 days, but the average debt repayment period was at 19 days, same as the same period last year, which was 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 increase 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 have been rising since the second half of the past year 2016. It is expected that the operating results of the coal business during year 2017, which is the Company's core business, should improve and perform better than the past year 2016 in accordance with such rise in global coal prices as mentioned above. Meanwhile, the Company and its subsidiary companies are currently preparing for investment in coal-fired power plant projects in Thailand and Indonesia, when tender process is open or new concession is offered. 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, in 2017 should still be satisfactory as both molasses and cassava are used as the main raw materials instead of just using molasses as in the past year 2016, which should provide higher production yield and help lower production cost. 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, the progress will be reported when it becomes more definite.

Regardless, both the Company and the subsidiary companies are still expected to be profitable in 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.
