



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS



**FOR THE OPERATING RESULTS OF
THE YEAR 2015**



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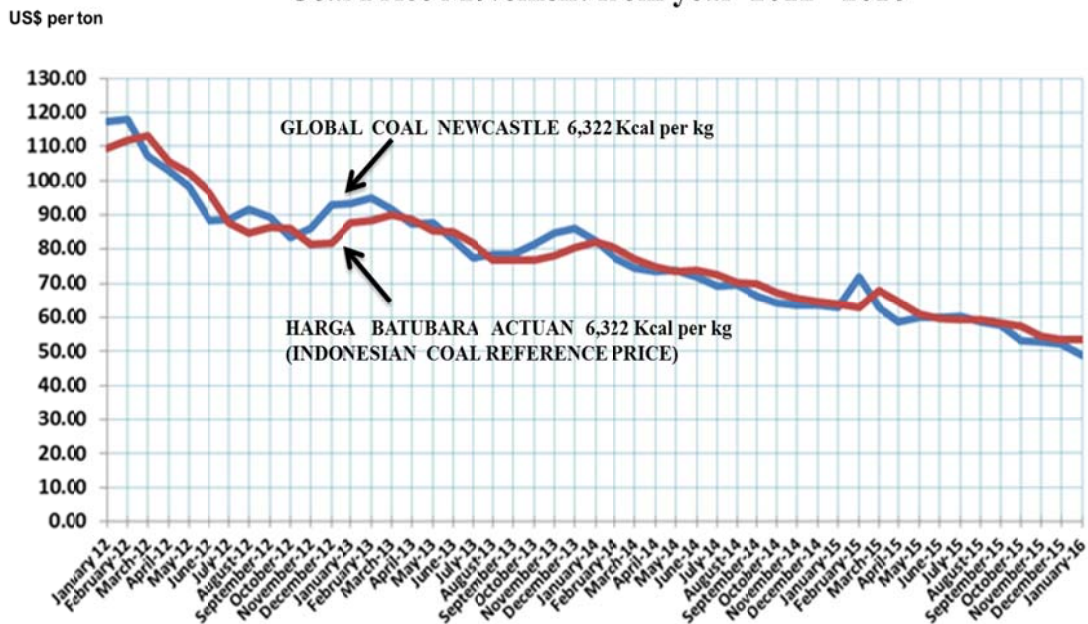
(For the Consolidated Financial Statements of Year 2015)

OVERALL OPERATING RESULTS

The Company's revenue in year 2015 were Baht 10,182.16 million, which decreased from the previous year by Baht 2,063.54 million or 16.85 percent. The net profit in year 2015 was Baht 309.61 million, which decreased from the previous year by Baht 117.16 million or 27.45 percent. This was due to the decrease in revenue and net profit from coal business in line with the continuously falling coal price in global market. Meanwhile, the revenue and net profit from ethanol business are good due to the Government policy on the termination of Gasoline 91 and promotion for usage of Gasohol E10 and E20.

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 year 2015 was Baht 7,550.01 million, which decreased from the previous year by Baht 2,161.89 million or 22.26 percent due to the decrease in coal sales volume and average selling price by 15.75 and 7.73 percent, respectively. The resulting net profit derived from shareholding proportion in year 2015 was Baht 129.98 million, which decreased from the previous year by 41.50 percent. Regardless, while the operating results of the coal business declines, it remains continuously profitable.

ETHANOL BUSINESS: The average ethanol selling price in year 2015 slightly decreased from the previous year by 2.27 percent. However, the ethanol demand increased from the previous year by 8.80 percent due to continuous increase in consumption of Gasohol E10 and E20, resulting in an increase in ethanol being used for the gasohol mixture. In summary, the revenue of the ethanol business in year 2015 was Baht 2,600.32 million, which increased from the previous year by Baht 104.04 million or 4.17 percent. The net profit in year 2015 was Baht 244.27 million, which increased from the previous year by Baht 24.96 million or 11.38 percent. However, the resulting net profit derived from shareholding proportion of the Company in 2015 was Baht 122.34 million, which decreased from the previous year by 14.94 percent. This was due to the selling of ordinary shares in the subsidiary company in ethanol business according to the spin-off plan in 2014, resulting in the decrease in Company's shareholding from 75.75 percent to 51 percent of paid-up capital. Accordingly, the net profit derived from shareholding proportion thus decreased from the previous year.

OPERATING RESULTS ANALYSIS

Revenue	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Coal Business	7,550.01	74.15	9,711.90	79.31	(2,161.89)	(22.26)
Revenue from Ethanol Business	2,600.32	25.54	2,496.28	20.38	104.04	4.17
Other Revenue	31.83	0.31	37.52	0.31	(5.69)	(15.17)
Total Revenue	10,182.16	100.00	12,245.70	100.00	(2,063.54)	(16.85)

REVENUE: The Company's revenue in year 2015 totaled Baht 10,182.16 million, which decreased from the previous year by Baht 2,063.54 million or 16.85 percent due to the following reasons:

(1) Revenue from coal business in year 2015 totaled Baht 7,550.01 million, which decreased from the previous year by Baht 2,161.89 million or 22.26 percent. This was due to the decrease in coal sales volume and average selling price of 15.75 percent and 7.73 percent, respectively, in line with the downtrend of the global coal market.

(2) Revenue from ethanol business in year 2015 totaled Baht 2,600.32 million, which increased from the previous year by Baht 104.04 million or 4.17 percent. This was due to the increase in ethanol sales volume by 6.65 percent, but the average ethanol selling price decreased by 2.27 percent due to the falling oil price.

(3) Other revenues in year 2015 totaled Baht 31.83 million, which decreased from the previous year by Baht 5.69 million or 15.17 percent due to the decrease in interest income.

Expenses	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Coal Business						
Cost of Sales	5,158.73	68.33	6,514.07	67.07	(1,355.34)	(20.81)
Selling and Administrative Expenses	2,054.41	27.21	2,630.54	27.09	(576.13)	(21.90)
Financial Cost	11.47	0.15	9.21	0.09	2.26	24.54
Corporate Income Tax	166.85	2.21	223.73	2.30	(56.88)	(25.42)
Ethanol Business						
Cost of Sales	2,244.29	86.31	2,165.59	86.75	78.70	3.63
Selling and Administrative Expenses	48.23	1.85	50.13	2.01	(1.90)	(3.79)
Financial Cost	50.06	1.93	57.00	2.28	(6.94)	(12.18)
Corporate Income Tax	15.71	2.46	8.95	1.30	6.76	75.53

COAL BUSINESS EXPENSES: Coal business expenses in year 2015 totaled Baht 7,391.46 million, which decreased from the previous year by Baht 1,986.09 million or 21.18 percent, due to the following reasons:

(1) Cost of coal sales in year 2015 decreased from the previous year by Baht 1,355.34 million or 20.81 percent. This was due to the decrease in coal sales volume and average coal selling price of 15.75 percent and 6.01 percent, respectively.

(2) Selling and administrative expenses in year 2015 decreased from the previous year by Baht 576.13 million or 21.90 percent due to the decrease in coal sales volume.

(3) Financial cost in year 2015 increased from the previous year by Baht 2.26 million. This was due to loan engaged by a subsidiary company in Indonesia for a purchase of jetty and hauling roads, resulting in an increase in interest expense.

(4) Corporate income tax in year 2015 decreased from the previous year by 56.88 million or 25.42 percent due to the decrease in profit.

ETHANOL BUSINESS EXPENSES: Ethanol business expenses in year 2015 totaled Baht 2,358.29 million, which increased from the previous year by Baht 69.86 million or 3.06 percent, due to the following reasons:

(1) Cost of ethanol sales in year 2015 increased from the previous year by 78.70 million or 3.63 percent. This was due to the increase in ethanol sales volume and molasses price, which is a raw material and a major cost, of 6.65 percent and 0.55 percent, respectively.

(2) Selling and administrative expenses in year 2015 decreased from the previous year by Baht 1.90 million or 3.79 percent.

(3) Financial expenses in year 2015 decreased from the previous year by Baht 6.94 million or 12.18 percent due to loan repayment according to loan agreement terms.

(4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in year 2015, 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 year 2015 of Baht 15.71 million, which increased from the previous year by 75.53 percent.

Gross Profit	Coal Business		Ethanol Business		Total	
	Baht Million	%	Baht Million	%	Baht Million	%
Year 2015						
Revenues from Sales	7,550.01	100.00	2,600.32	100.00	10,150.33	100.00
Less Cost of Sales	5,158.73	68.33	2,244.29	86.31	7,403.02	72.93
Gross Profit	2,391.28	31.67	356.03	13.69	2,747.31	27.07
Year 2014						
Revenues from Sales	9,711.90	100.00	2,496.28	100.00	12,208.18	100.00
Less Cost of Sales	6,514.07	67.07	2,165.59	86.75	8,679.66	71.10
Gross Profit	3,197.83	32.93	330.69	13.25	3,528.52	28.90

GROSS PROFIT: The Company's gross profit in year 2015 was Baht 2,747.31 million, or gross profit margin of 27.07 percent of the sales revenue. When compared with the gross profit of the previous year of Baht 3,528.52 million or gross profit margin of 28.90 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(1) Gross profit margin from coal business in year 2015 was 31.67 percent of the sales revenue, which decreased from the previous year with gross profit margin of 32.93 of the sales revenue. This was due to the decrease in coal sales price of 7.73 percent, while the cost of coal sales decreased by only 6.01 percent.

(2) Gross profit margin from ethanol business in year 2015 was 13.69 percent of the sales revenue, which increased from the previous year with gross profit margin of 13.25 percent of the sales revenue. This was due to the decrease in ethanol selling price of 2.27 percent, but the cost of ethanol sales decreased by 2.76 percent.

Net Profit	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Profit from Coal Business	129.98	41.98	222.19	52.06	(92.21)	(41.50)
Profit form Ethanol Business	122.34	39.51	143.82	33.70	(21.48)	(14.94)
Other revenues and share of income from investment in associate company	57.29	18.51	60.76	14.24	(3.47)	(5.71)
Net Profit	309.61	100.00	426.77	100.00	(117.16)	(27.45)
Net Earnings per Share – Baht per Share	0.59		0.81		(0.22)	(27.45)

NET PROFIT: The Company's net profit in year 2015 was Baht 309.61 million, or net earnings of Baht 0.59 per share. When compared with the previous year, the net profit decreased by 27.45 percent due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company in year 2015 was Baht 129.98 million or 41.98 percent of the total net profit, which decreased from the previous year by Baht 92.21 million or 41.50 percent. This was due to the decrease in coal sales volume and average selling price by 15.75 percent and 7.73 percent in line with the coal market downtrend.

(2) Net profit from ethanol business derived from shareholding proportion of the Company in year 2015 was Baht 122.34 million or 39.51 percent of the total net profit, which decreased from the previous year by Baht 21.48 million or 14.94 percent. While the net profit of the ethanol business in year 2015 was Baht 244.27 million, which increased from the previous year by Baht 24.96 million or 11.38 percent, the shareholding proportion of the Company in subsidiary company conducting the ethanol business had decreased from 75.75 percent to 51 percent of paid-up capital, resulting in the abovementioned decrease in net profit from ethanol business.

(3) Other revenues and share of income form investment in the associate company in year 2015 was Baht 57.29 million or 18.51 percent of the total net profit, which slightly decreased from the previous year by Baht 3.47 million or 5.71 percent due to the decrease in interest income.

EARNINGS EFFICIENCY

The abovementioned decrease in the net profit in year 2015 results in a decrease in the earnings efficiency of the Company as follows:

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in year 2015 was Baht 1,401.48 million, which decreased from the previous year by 13.37 percent.

(2) EBITDA margin in year 2015 was at 13.76 percent, which increased from the previous year by 4.18 percent.

(3) Net profit margin in year 2015 was at 4.50 percent, which decreased from the previous year by 9.69 percent.

(4) Return on equity in year 2015 was at 7.34 percent, which decreased from the previous year 29.11 percent.

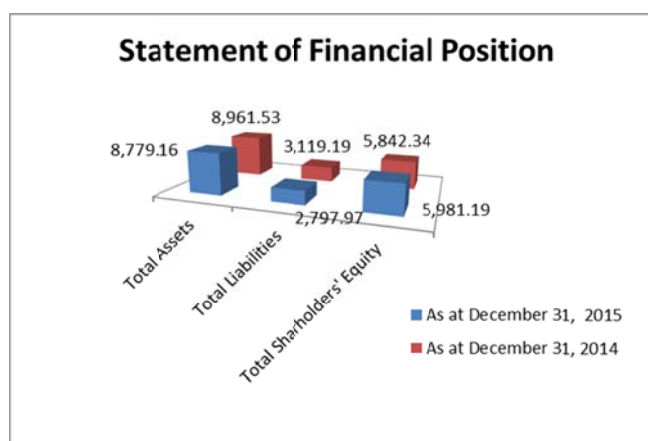
(5) Return on total assets in year 2015 was at 5.16 percent, which decreased from the previous year by 25.39 percent. Also, return on fixed assets in year 2015 was at 34.26 percent, which decreased from the previous year by 12.90 percent.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2015	As at December 31, 2014	Million Baht	%
Total Assets	8,779.16	8,961.53	(182.37)	(2.04)
Total Liabilities	2,797.97	3,119.19	(321.22)	(10.30)
Total Shareholders' Equity	5,981.19	5,842.34	138.85	2.38
Book Value-Baht per Share	8.11	7.97	0.14	1.76
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at end of year 2015 decreased from end of year of 2014 by Baht 182.37 million or a decrease of 2.04 percent, consisting of:

(1) Current assets decreased from end of year of 2014 by Baht 101.10 million or 2.19 percent, due to (A) cash and cash equivalent increased by Baht 296.80 million or 24.45 percent; (B) trade accounts receivable and other accounts receivable increased by Baht 88.38 million or 12.21 percent; (C) inventories decreased by Baht 86.16 million or 15.27 percent; and (D) other current assets decreased by Baht 399.12 million or 19.32 percent, most of which were advance payment of corporate income tax and advance payment of goods.



(2) Non-current assets decreased from end of year of 2014 by Baht 82.27 million or 1.87 percent.

LIABILITIES: The Company's total liabilities as at end of year 2015 decreased from end of year of 2014 by Baht 321.22 million or 10.30 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from end of year of 2014 by Baht 52.07 million or 11.25 percent

(2) Short-term and long-term loans decreased from end of year of 2014 by Baht 340.76 million or 18.36 percent due to loan repayment by subsidiary companies according to loan agreement terms.

(3) Accrued expenses, most of which were overburden removal expenses, freight cost, etc., increased from end of year of 2014 by Baht 27.26 million or 5.35 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 2014 by Baht 44.35 million or 15.21 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at end of year of 2015 increased from end of year of 2014 by Baht 138.85 million or 2.38 percent, resulting in an increase of the share's book value from Baht 7.97 per share to Baht 8.11 per share. This was due to: (A) an increase in net profit of Baht 309.61 million, (B) dividend payment of Baht 393.75 million, (C) a net increase in translation adjustment in financial statement and other items of Baht 157.42 million, and (D) an increase in minority shareholders' equity of Baht 65.57 million.

CASH FLOWS

Cash Flows	(Unit: Million Baht)	
	Year 2015	Year 2014
Cash Flows from (used in) Operating Activities	1,695.31	881.80
Cash Flows from (used in) Investing Activities	(570.71)	(1,322.24)
Cash Flows from (used in) Financing Activities	(820.40)	74.87
Increase (Decrease) in Translation Adjustments in Financial Statements	(90.97)	(9.53)
Net Increase (Decrease) in Cash	213.23	(375.10)
Cash at the beginning of the period	446.92	822.02
Cash at the end of the period	660.15	446.92

(1) The Company's net cash from operating activities in year 2015 was Baht 1,695.31 million, consisting of: (A) income before corporate income tax and interest expense of Baht 640.43 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 947.20 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 204.15 million due to a decrease in inventories and advance payment of goods; (D) a decrease in operating liabilities of Baht 70.42 million due to a decrease in trade accounts payable and in accrued expenses; and (E) an increase in interest income of Baht 22.91 million, despite an increase in interest expense and taxes of Baht 48.96 million.

(2) The Company's net cash used in investing activities in year 2015 was Baht 570.71 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 59.06 million, most of which was a construction of a biogas power plant; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 491.35 million; and (C) short-term cash investment and other items which increased by a total of Baht 20.30 million.

(3) The Company's net cash used in financing activities in year of 2015 was Baht 820.40 million, including (A) a net decrease in loan of Baht 342.55 million, (B) dividend payment of Baht 565.53 million, and (D) an increase in minority shareholders' equity of Baht 87.68 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at end of year 2015 were 9.25 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 in 2014 and therefore, there was no provision for doubtful debt in the past year of 2015.

(2) Inventory as at end of year of 2015 was 5.45 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 past year of 2015.

(3) Goodwill from investment in the subsidiary company in Indonesia as at end of year of 2015 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 year 2015.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at end of year of 2015 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 2015 is as high as 22.78 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 end of year of 2015 were at 2.06 times and 1.07 times, respectively. The Company and its subsidiary companies have adequate credit line for working capital in the future.

(3) The Company's cash cycle in 2015 was at 33 days, an increase from the previous year of 9 days. The average debt collection period was at 27 days, an increase from the previous year of 4 days. The average inventory turnover was at 25 days, an increase from last year of 4 days. However, the average debt repayment period was at 19 days or a decrease from last year of 1 day, 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, the Ethanol Production Line No. 2 has undergone an improvement during year 2015, with investment of Baht 7 million. The purpose of the improvement is for using raw granulated sugar as a raw material in conjunction with molasses, resulting in the decrease in cost of ethanol production in 2015 as mentioned above. Additionally, a treatment system for hydrogen sulfide in biogas was constructed with an investment of Baht 42.59 million, with expected completion in the first quarter of 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 determined that the Company must maintain its shareholding proportion in TAE 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 TAE 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 continuously in line with the downtrend of global oil and coal markets. Accordingly, the Company has set out a strategy to reduce coal production and distribution costs in line with the reduction of 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 production and selling of coal will be improved, the projects should also yield a good return, 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. Accordingly, the Ethanol Production Line No. 3, with production capacity of 200,000 liters per day, is planned to be constructed within 2018. To effectively manage the cost, ethanol export and raw material import from the ASEAN region are also considered.

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.
