



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE OPERATING RESULTS OF
THE 2ND QUARTER 2015
AND THE FIRST 6-MONTH PERIOD OF 2015**

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

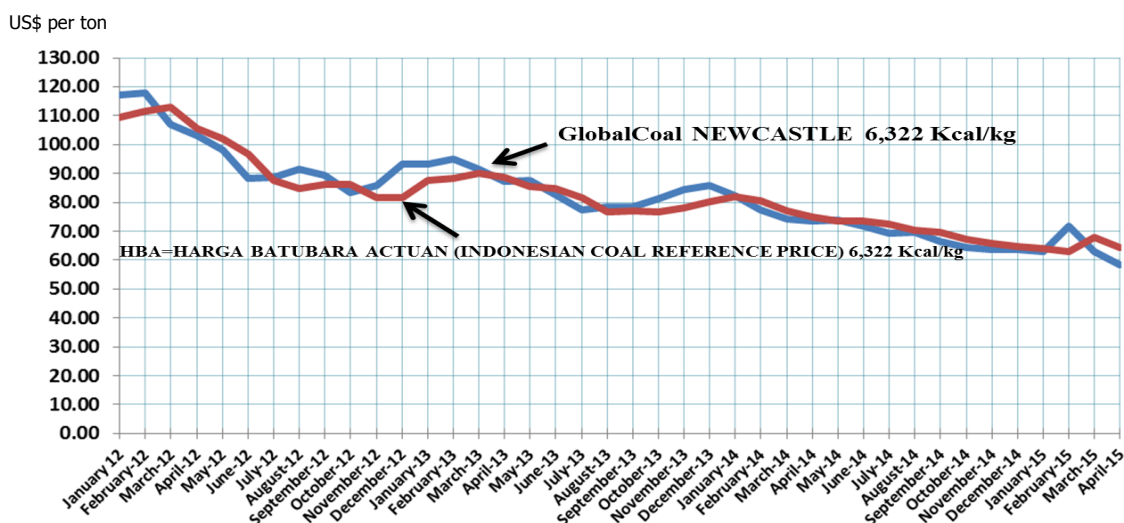
(For the Consolidated Financial Statements of the 2nd Quarter 2015
and the First 6-Month Period of 2015)

OVERALL OPERATING RESULTS

The Company's revenue in the 2nd quarter 2015 and the first 6-month period of 2015 were Baht 2,594.53 million and Baht 5,492.74 million, which decreased from the same period last year by 26.09 and 19.39 percent. The net profit in the 2nd quarter 2015 and the first 6-month period of 2015 were Baht 70.92 million and 191.51 million, which decreased from the same period last year by 25.28 and 38.60 percent, respectively. This is due to the decrease in revenue and net profit from coal business as a result of the continuous decline in coal prices. Meanwhile, the revenue and net profit from ethanol business increased in line with continuous increase in the domestic ethanol demand due to the Government policy on the termination of Gasoline 91 and promotion for the use of Gasohol E10, E20 and E85.

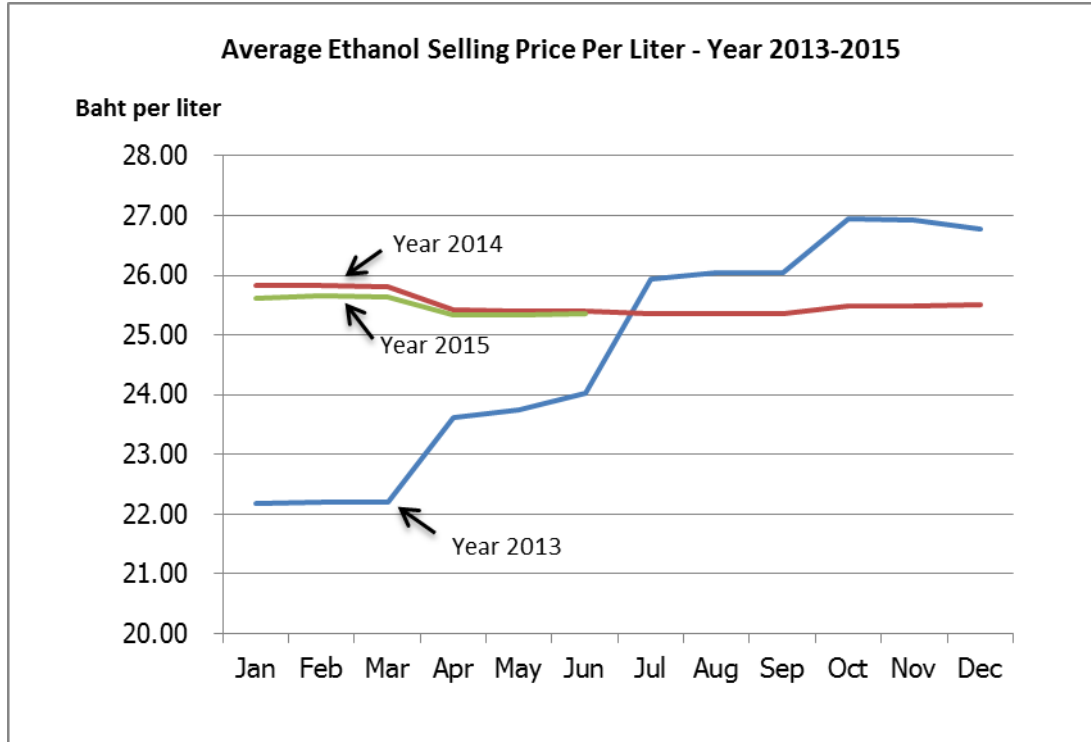
COAL BUSINESS: The global coal prices have been continuously decreasing. The Company still employs the same strategy by reducing mining cost and increasing production efficiency by decreasing the cost of coal winning, which is the major cost. The product mix is also carefully selected by choosing only those with high price and that highly profitable.

GlobalCoal NEWCASTLE - HBA Index Year 2012-2015



In summary, the revenue of the coal business in the 2nd quarter 2015 and the first 6-month period of 2015 were Baht 1,917.44 million and Baht 4,113.20 million, which decreased from the same period last year by 33.90 and 25.99 percent due to the decrease in coal sales volume and coal selling price. The resulting net profit derived from shareholding proportion in the 2nd quarter 2015 and the first 6-month period of 2015 were Baht 26.48 million and Baht 72.91 million, which decreased from the same period last year by 39.20 and 54.99 percent. Regardless, the coal business remains continuously profitable.

ETHANOL BUSINESS: The average ethanol selling price in the 2nd quarter 2015 and the first 6-month period of 2015 slightly decreased from the same period last year by 0.20 and 0.47 percent, respectively. However, the ethanol demand increased from 3.24 million liters per day at the end of 2014 to 3.56 million liters per day in the 2nd quarter 2015, or 9.88 percent. This is due to the continuous increase in demand of Gasohol E10 and E20, resulting in an increase in ethanol used for the gasohol mixture.



In summary, the revenue of the ethanol business in the 2nd quarter 2015 and the first 6-month period of 2015 were Baht 668.69 million and Baht 1,362.45 million, which increased from the same period last year by 11.28 and 10.59 percent. The resulting net profit derived from shareholding proportion of the Company in the 2nd quarter and the first 6-month period of 2015 were Baht 29.40 million and 88.66 million, which decreased from the same period last year by 23.40 and 22.80 percent, respectively. While the net profit of the ethanol business in the 2nd quarter and the first 6-month period of 2015 increased by 4.91 and 11.24 percent, respectively, but with the sale of ordinary shares in Thai Agro Energy Public Co., Ltd. (TAE), a subsidiary company in ethanol business, according to the spin-off plan in 2014, the shareholding proportion of the Company in TAE decreased from 75.75 to 51 percent of the paid-up capital, resulting the decrease in the derived net profit as described above.

OPERATING RESULTS ANALYSIS

| Revenue (Unit: Million Baht) | Quarters | | | Increase (Decrease) | | 6-Month Period (Jan – June) | | Increase (Decrease) (%) |
|---------------------------------|-----------------|-----------------|-----------------|------------------------|----------------|--------------------------------|-----------------|-------------------------------|
| | 1/2015 | 2/2015 | 2/2014 | YoY (%) | QoQ (%) | 2015 | 2014 | |
| Revenue from Coal Sales | 2,195.76 | 1,917.44 | 2,900.72 | (33.90) | (12.68) | 4,113.20 | 5,557.61 | (25.99) |
| Revenue from Ethanol Sales | 693.76 | 668.69 | 600.92 | 11.28 | (3.61) | 1,362.45 | 1,232.02 | 10.59 |
| Other Revenue | 8.69 | 8.40 | 8.81 | (4.65) | (3.34) | 17.09 | 24.56 | (30.42) |
| Total Revenues | 2,898.21 | 2,594.53 | 3,510.45 | (26.09) | (10.48) | 5,492.74 | 6,814.19 | (19.39) |

REVENUE

(1) The Company's revenue in the 2nd quarter 2015 totaled Baht 2,594.53 million, which decreased from the same period last year by Baht 915.92 million or 26.09 percent due to the following reasons:

(1.1) Revenue from coal business in the 2nd quarter 2015 was Baht 1,917.44 million, which decreased from the same period last year by Baht 983.28 million or 33.90 percent. This was due to the decrease in coal sales volume and selling price of 30.36 percent and 5.07 percent, respectively, in line with downtrend of the global coal market.

(1.2) Revenue from ethanol business in the 2nd quarter 2015 was Baht 668.69 million, which increased from the same period last year by Baht 67.77 million or 11.28 percent. This was due to the increase in ethanol sales volume of 11.51 percent in line with the continuously increase in demand for ethanol, despite a slight decrease in ethanol selling price of 0.20 percent.

(1.3) Other revenue in the 2nd quarter 2015 was Baht 8.40 million, which decreased from the same period last year by Baht 0.41 million or 4.65 percent due to a decrease in interest income.

(2) The Company's revenue in the first 6-month period of 2015 totaled Baht 5,492.74 million, which decreased from the same period last year by Baht 1,321.45 million or 19.39 percent due to the following reasons:

(2.1) Revenue from coal business in the first 6-month period of 2015 was Baht 4,113.20 million, which decreased from the same period last year by Baht 1,444.41 million or 25.99 percent. This was due to decreases in coal sales volume and selling price of 20.04 percent and 7.45 percent, respectively, in line with downtrend of the global coal market.

(2.2) Revenue from ethanol business in the first 6-month period of 2015 was Baht 1,362.45 million, which increased from the same period last year by Baht 130.43 million or 10.59 percent. This was due to the increase in ethanol sales volume of 11.10 percent in line with the continuously increase in demand for ethanol, despite a slight decrease in ethanol selling price of 0.47 percent.

(2.3) Other revenue in the first 6-month period of 2015 was Baht 17.09 million, which decreased from the same period last year by Baht 7.47 million or 30.42 percent due to a decrease in foreign exchange gain.

| Expenses (Unit: Million Baht) | Quarters | | | Increase (Decrease) | | 6-Month Period (Jan – June) | | Increase (Decrease) (%) |
|-------------------------------------|----------|----------|----------|------------------------|---------|--------------------------------|----------|-------------------------------|
| | 1/2015 | 2/2015 | 2/2014 | YoY (%) | QoQ (%) | 2015 | 2014 | |
| Coal Business | | | | | | | | |
| Cost of sales | 1,504.21 | 1,274.47 | 1,900.84 | (32.95) | (15.27) | 2,778.68 | 3,616.97 | (23.18) |
| Selling and administrative expenses | 560.48 | 559.68 | 848.53 | (34.04) | (0.14) | 1,120.16 | 1,484.48 | (24.54) |
| Financial cost | 4.94 | 1.56 | 1.33 | 17.29 | (68.42) | 6.49 | 3.33 | 94.89 |
| Corporate income tax | 63.63 | 49.44 | 74.10 | (33.28) | (22.30) | 113.07 | 178.98 | (36.83) |
| Ethanol Business | | | | | | | | |
| Cost of sales | 542.74 | 578.79 | 513.33 | 12.75 | 6.64 | 1,121.53 | 1,017.30 | 10.25 |
| Selling and administrative expenses | 9.80 | 14.76 | 13.58 | 8.69 | 50.61 | 24.56 | 23.61 | 4.02 |
| Financial cost | 15.05 | 13.29 | 15.36 | (13.48) | (11.69) | 28.34 | 30.77 | (7.90) |
| Corporate income tax | 9.47 | 3.68 | 4.09 | (10.02) | (61.14) | 13.15 | 4.66 | 182.19 |

COAL BUSINESS EXPENSES

(1) Coal business expenses in the 2nd quarter 2015 totaled Baht 1,885.15 million, which decreased from the same period last year by Baht 939.65 million or 33.26 percent, due to the following reasons:

(1.1) Cost of coal sales in the in the 2nd quarter 2015 decreased from the same period last year by Baht 626.37 million or 32.95 percent. This was due to a decrease in coal sales volume of 30.36 percent and a decrease in average coal selling price of 3.72 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2015 decreased from the same period last year by Baht 288.85 million or 34.04 percent according to the decrease in coal sales volume.

(1.3) Financial cost in the 2nd quarter 2015 increased from the same period last year by Baht 0.23 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.

(1.4) Corporate income tax in the 2nd quarter 2015 decreased from the same period last year by Baht 24.66 million or 33.28 percent in line with the decrease in profit.

(2) Coal business expenses in the first 6-month period of 2015 totaled Baht 4,018.40 million, which decreased from the same period last year by Baht 1,265.36 million or 23.95 percent, due to the following reasons:

(2.1) Cost of coal sales in the first 6-month period of 2015 decreased from the same period last year by Baht 838.29 million or 23.18 percent. This was due to the decrease in coal sales volume of 20.04 percent and a decrease in average coal selling price of 3.93 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2015 decreased from the same period last year by Baht 364.32 million or 24.54 percent according to the decrease in coal sales volume.

(2.3) Financial cost in the first 6-month period of 2015 increased from the same period last year by Baht 3.16 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.

(2.4) Corporate income tax in the first 6-month period of 2015 decreased from the same period last year by Baht 65.91 million or 36.83 percent in line with the decrease in profit.

ETHANOL BUSINESS EXPENSES

(1) Ethanol business expenses in the 2nd quarter 2015 totaled Baht 610.52 million, which increased from the same period last year by Baht 64.16 million or 11.74 percent, due to the following reasons:

(1.1) Cost of ethanol sales in the 2nd quarter 2015 increased from the same period last year by Baht 65.46 million or 12.75 percent. This was due to the increase in ethanol sales volume of 11.51 percent, and the increase in molasses (raw material) price, which is a major cost, from the same period last year by 4.40 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2015 increased from the same period last year by Baht 1.18 million or 8.69 percent in line with the increase in ethanol sales volume.

(1.3) Financial expenses in the 2nd quarter 2015 decreased from the same period last year by Baht 2.07 million or 13.48 percent due to loan repayment according to loan agreement terms.

(1.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the 2nd quarter 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 of Baht 3.68 million in the 2nd quarter 2015, which decreased from the same period last year by Baht 0.41 million.

(2) Ethanol business expenses in the first 6-month period of 2015 totaled Baht 1,187.58 million, which increased from the same period last year by Baht 102.75 million or 9.55 percent, due to the following reasons:

(2.1) Cost of ethanol sales in the first 6-month period of 2015 increased from the same period last year by Baht 104.23 million or 10.25 percent. This was due to the increase in ethanol sales volume of 11.10 percent and the increase in molasses (raw material) price, which is a major cost, from the same period last year by 4.31 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2015 increased from the same period last year by Baht 0.95 million or 4.02 percent in line with the increase in ethanol sales volume.

(2.3) Financial expenses in the first 6-month period of 2015 decreased from the same period last year by Baht 2.43 million or 7.90 percent due to loan repayment according to loan agreement terms.

(2.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the first 6-month period of 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 of Baht 13.15 million in the first 6-month period of 2015, which increased from the same period last year by Baht 8.49 million in line with the increased profit.

| Gross Profit | Coal Business | | Ethanol Business | | Total | |
|--|-----------------|--------------|------------------|--------------|-----------------|--------------|
| | Million Baht | % | Million Baht | % | Million Baht | % |
| 2nd Quarter (April - June) | | | | | | |
| Year 2015 | | | | | | |
| Revenues from sales | 1,917.44 | 100.00 | 668.69 | 100.00 | 2,586.13 | 100.00 |
| Less Cost of sales | 1,274.47 | 66.47 | 578.79 | 86.56 | 1,853.26 | 71.66 |
| Gross Profit | 642.97 | 33.53 | 89.90 | 13.44 | 732.87 | 28.34 |
| Year 2014 | | | | | | |
| Revenues from sales | 2,900.72 | 100.00 | 600.92 | 100.00 | 3,501.64 | 100.00 |
| Less Cost of sales | 1,900.84 | 65.53 | 513.33 | 85.42 | 2,414.17 | 68.94 |
| Gross Profit | 999.88 | 34.47 | 87.59 | 14.58 | 1,087.47 | 31.06 |
| 6-Month Period (January – June) | | | | | | |
| Year 2015 | | | | | | |
| Revenues from sales | 4,113.20 | 100.00 | 1,362.45 | 100.00 | 5,475.65 | 100.00 |
| Less Cost of sales | 2,778.68 | 67.56 | 1,121.53 | 82.32 | 3,900.21 | 71.23 |
| Gross Profit | 1,334.52 | 32.44 | 240.92 | 17.68 | 1,575.44 | 28.77 |
| Year 2014 | | | | | | |
| Revenues from sales | 5,557.61 | 100.00 | 1,232.02 | 100.00 | 6,789.63 | 100.00 |
| Less Cost of sales | 3,616.97 | 65.08 | 1,017.30 | 82.57 | 4,634.27 | 68.26 |
| Gross Profit | 1,940.64 | 34.92 | 214.72 | 17.43 | 2,155.36 | 31.74 |

GROSS PROFIT

(1) The Company's gross profit in the 2nd quarter 2015 was Baht 732.87 million, or 28.34 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,087.47 million or 31.06 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(1.1) Gross profit margin from coal business in the 2nd quarter 2015 was 33.53 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 34.47 percent of the sales revenue. This was due to the decrease in coal sales price below the cost of coal sales as described above.

(1.2) Gross profit margin from the ethanol business in the 2nd quarter 2015 was 13.44 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 14.58 percent of the sales revenue. This was due to the decrease the average ethanol cost of sale and the increase in ethanol cost of sales as described above.

(2) The Company's gross profit in the first 6-month period of 2015 was Baht 1,575.44 million, or 28.77 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 2,155.36 million or 31.74 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(2.1) Gross profit margin from coal business in the first 6-month period of 2015 was 32.44 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 34.92 percent of the sales revenue. This was due to the decrease in coal sales price below the cost of coal sales as described above.

(2.2) Gross profit margin from the ethanol business in the first 6-month period of 2015 was 17.68 percent of the sales revenue, which slightly increased from the same period last year with gross profit margin of 17.43 percent of the sales revenue. This was due to the decrease the average ethanol cost of sale by 0.77 percent.

| Net Profit (Unit: Million Baht) | Quarters | | | Increase (Decrease) | | 6-Month Period (Jan – June) | | Increase (Decrease) (%) |
|--|---------------|--------------|--------------|------------------------|----------------|--------------------------------|---------------|-------------------------------|
| | 1/2015 | 2/2015 | 2/2014 | YoY (%) | QoQ (%) | 2015 | 2014 | |
| Profit from Coal Business | 46.43 | 26.48 | 43.55 | (39.20) | (42.97) | 72.91 | 161.98 | (54.99) |
| Profit from Ethanol Business | 59.26 | 29.40 | 38.38 | (23.40) | (50.39) | 88.66 | 114.85 | (22.80) |
| Share of income from investment in associate company and other revenue | 14.90 | 15.04 | 12.98 | 15.87 | 0.94 | 29.94 | 35.08 | (14.65) |
| Net Profit | 120.59 | 70.92 | 94.91 | (25.28) | (41.19) | 191.51 | 311.91 | (38.60) |
| Net Earnings per Share -Baht per Share | 0.23 | 0.14 | 0.18 | (25.28) | (41.19) | 0.36 | 0.59 | (38.60) |

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2015 was Baht 70.92 million, or net earnings of Baht 0.14 per share. When compared with the same period last year, the net profit decreased by 25.28 percent due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company in the in the 2nd quarter 2015 was Baht 26.48 million or 37.34 percent of the total net profit, which decreased from the same period last year by Baht 17.07 million or 39.20 percent. This was due to the decrease in coal sales volume and selling price as described above.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company in the 2nd quarter 2015 was Baht 29.40 million or 41.46 percent of the total net profit, which decreased from the same period last year by Baht 8.98 million or 23.40 percent. While the net profit of the ethanol business increased by 4.91 percent, the shareholding proportion of the Company in the subsidiary company conducting the ethanol business had decreased from 75.75 percent to 51 percent of paid-up capital, resulting in the decrease in net profit from ethanol business.

(1.3) Other revenues and share of income from investment in the associate company in the 2nd quarter 2015 was Baht 15.04 million or 21.20 percent of the total net profit, which increased from the same period last year by Baht 2.06 million or 15.87 percent due to the increase in share of income from investment in the associate company.

(2) The Company's net profit in the first 6-month period of 2015 was Baht 191.51 million, or net earnings of Baht 0.36 per share. When compared with the same period last year, the net profit decreased by 38.60 percent due to the following reasons:

(2.1) Net profit from coal business derived from shareholding proportion of the Company in the in the first 6-month period of 2015 was Baht 72.91 million or 38.07 percent of the total net profit, which decreased from the same period last year by Baht 89.07 million or 54.99 percent. This was due to the decrease in coal sales volume and selling price as described above.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company in the first 6-month period of 2015 was Baht 88.66 million or 46.30 percent of the total net profit, which decreased from the same period last year by Baht 26.19 million or 22.80 percent. While the net profit of the ethanol business increased by 11.24 percent, but the shareholding proportion of the Company in the subsidiary company conducting the ethanol business had decreased from 75.75 percent to 51 percent of paid-up capital, resulting in the decrease in net profit from ethanol business.

(2.3) Other revenues and share of income from investment in the associate company in the first 6-month period of 2015 was Baht 29.94 million or 15.63 percent of the total net profit, which decreased from the same period last year by Baht 5.14 million or 14.65 percent due to the decrease in foreign exchange gain.

EARNINGS EFFICIENCY

The abovementioned decrease in the net profit in the first 6-month period of 2015 results in a decrease in the earnings efficiency of the Company as follows:

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2015 was Baht 779.58 million, which decreased from the same period last year by 30.17 percent.

(2) The Company's EBITDA margin in the first 6-month period of 2015 was at 14.19 percent of the total revenues. When compared with the EBITDA margin of the same period last year of 16.38 percent, the EBITDA margin decreased by 13.38.

(3) The Company's net profit margin in the first 6-month period of 2015 was at 5.45 percent, which decreased from the same period last year of 6.82 percent by 20 percent.

(4) The Company's return on equity in the first 6-month period of 2015 was at 4.57 percent, which decreased from the same period last year of 7.64 percent by 40.15 percent.

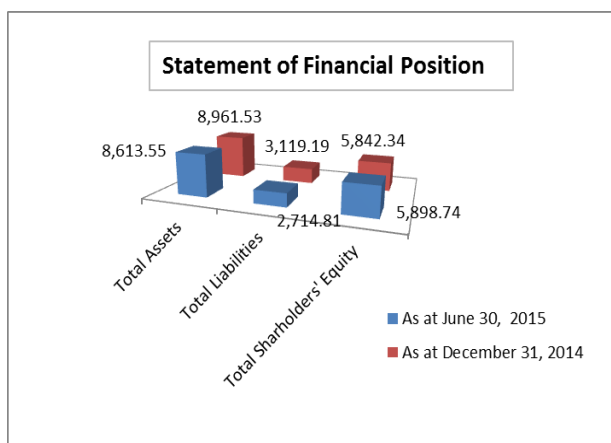
(5) The Company's return on total assets and return on fixed assets in the first 6-month period of 2015 were at 3.41 percent and 18.19 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 5.27 percent and 27.02 percent, they decreased by 35.29 percent and 32.68 percent, respectively. The asset turnover ratio was at 0.63 times, which decreased from the same period last year by 19.11 percent.

STATEMENT OF FINANCIAL POSITION

| Financial Position | Unit: Million Baht | | Increase (Decrease) | |
|---|----------------------------|--------------------------------|----------------------------|-------------|
| | As at June 30, 2015 | As at December 31, 2014 | Million Baht | % |
| Total Assets | 8,613.55 | 8,961.53 | (347.98) | (3.88) |
| Total Liabilities | 2,714.81 | 3,119.19 | (404.38) | (12.96) |
| Total Shareholders' Equity | 5,898.74 | 5,842.34 | 56.40 | 0.97 |
| Book Value-Baht per Share | 7.99 | 7.97 | 0.02 | 0.25 |
| Remark: Registered par value of Baht 1 per share | | | | |

ASSETS: The Company's total assets as at June 30, 2015 decreased from yearend 2014 by Baht 347.98 million or a decrease of 3.88 percent, consisting of:

(1) Current assets decreased from yearend 2014 by Baht 276.73 million or a decrease of 6.06 percent, due to (A) cash and cash equivalent increased from yearend 2014 by Baht 232.82 million or an increase of 19.18 percent; (B) trade accounts receivable and other accounts receivable increased from yearend 2014 by Baht 79.79 million or an increase of 11.02 percent; (C) inventories increased from yearend 2014 by Baht 292.04 million or an increase of 51.75 percent, most of which were finished coal and a reserve of purchased molasses for 2015; and (D) other current assets, most of which were advance payment of corporate income tax and advance payment of goods, decreased from yearend 2014 by Baht 881.38 million or 42.66 percent.



(2) Non-current assets decreased from yearend 2014 by Baht 71.25 million or a decrease of 1.62 percent, due to a decrease in written-off expenses.

LIABILITIES: The Company's total liabilities as at June 30, 2015 decreased from yearend 2014 by Baht 404.38 million or a decrease of 12.96 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from yearend 2014 by Baht 23.27 million or a decrease of 5.03 percent

(2) Short term and long term loans decreased from yearend 2014 by Baht 339.51 million or 18.30 percent due to contractual loan repayment by subsidiary companies.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., decreased from yearend 2014 by Baht 61.90 million or 12.15 percent.

(4) Other liabilities, most of which are provision for mine rehabilitation and allowance for long-term benefits of employees, etc., increased from yearend 2014 by Baht 20.30 million or 6.96 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at June 30, 2015 increased from yearend 2014 by Baht 56.40 million or 0.97 percent, resulting in an increase of the share's book value from Baht 7.97 per share to Baht 7.99 per share. This was due to an increase in net profit of Baht 191.51 million, dividend payment of Baht 210 million, a net increase in translation adjustment in financial statement and other items of Baht 31.46 million, and an increase in minority shareholders of Baht 43.43 million.

| Cash Flows (Unit: Million Baht) | 6-Month Period (January – June) | |
|---|---------------------------------|---------------|
| | 2015 | 2014 |
| Cash Flows from (used in) Operating Activities | 1,095.04 | 1,050.88 |
| Cash Flows from (used in) Investing Activities | (220.92) | (538.55) |
| Cash Flows from (used in) Financing Activities | (610.94) | (394.61) |
| Translation Adjustments in Financial Statements | (29.76) | 13.33 |
| Net Increase (Decrease) in Cash | 233.42 | 131.05 |
| Cash at the beginning of the period | 446.92 | 822.02 |
| Cash at the end of the period | 680.34 | 953.07 |

CASH FLOWS

(1) The Company's net cash from operating activities in the first 6-month period of 2015 was Baht 1,095.04 million, consisting of: (A) income before corporate income tax and interest expense of Baht 425.83 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 461.69 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 406.30 million due to a decrease in other current assets; (D) a decrease in operating liabilities of Baht 124.55 million due to a decrease in trade accounts payable, and (E) an increase in interest income of Baht 10.25 million, but with an increase in interest expense and taxes of Baht 84.48 million.

(2) The Company's net cash used in investment activities in the first 6-month period of 2015 was Baht 220.92 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 36.75 million, most of which were constructions of molasses storage tanks and a biogas power plant; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 191.15 million; and (C) short-term cash investment and other items which decreased by a total of Baht 6.98 million.

(3) The Company's net cash used in financing activities in the first 6-month period of 2015 was Baht 610.94 million, including (A) a decrease in loan of Baht 340.18 million, (B) dividend payment of Baht 294.12 million, and (C) an increase in minority shareholders' equity of Baht 23.36 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at June 30, 2015 were 9.33 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 the 2nd quarter 2015 and therefore, there was no provision for doubtful debt in the 2nd quarter 2015.

(2) Inventory as at June 30, 2015 was 9.94 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 2nd quarter 2015.

(3) Goodwill from investment in the subsidiary company in Indonesia as at June 30, 2015 is accounted for 2.16 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 2nd quarter 2015.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at June 30, 2015 was as low as 0.46 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 2nd quarter 2015 is as high as 22.38 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 June 30, 2015 were at 2.13 times and 1.11 times, respectively. The Company and its subsidiary companies still have adequate credit line for working capital in the future.

(3) The Company's cash cycle in the 2nd quarter 2015 was 38 days, an increase from the same period last year of 14 days. The average debt collection period was 24 days, a decrease from the same period last year of 1 day. The average inventory turnover was 33 days, an increase from the same period last year of 9 days. However, the average debt repayment period was 19 days or a decrease from the same period last year of 6 days, which is still within normal standard.

(4) Regarding the investment in coal business, which is still in a downtrend period, the Company has thus delayed additional investment. The Company should have no problem as there are still remaining coal reserves in both concessions in Indonesia which can still produce coal for decades to come.

(5) The ethanol production line no. 2 of TAE has been modified to be able to use raw granulated sugar as raw material for ethanol production in conjunction with molasses, with net investment of Baht 7 million. The modification was completed in the 2nd quarter 2015, further reducing the cost of ethanol production in 2015. The source of investment was from cash generation from operating activities.

DEBT OBLIGATION

Thai Agro Energy Public Co., Ltd. (TAE) is a subsidiary company in a business of ethanol production and distribution for fuel purpose, having obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows.

(1) TAE must maintain its debt to equity ratio (D/E ratio) not to exceed 2 times and debt service coverage ratio (DSCR) of no less than 1.25 times until the expiration of the loan agreement. TAE is able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan.

(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) A written approval from the lender bank is required before TAE can accrue more debts. Currently, TAE has adequate credit line for its working capital for business operation.

(4) The lending bank has stipulated that TAE cannot pay dividend to its shareholders, including the Company, if TAE 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 TAE, etc. Accordingly, TAE 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 2015 will continue in a low price level according to the downtrend in global coal market. Accordingly, the Company has set out a strategy to reduce the production and distribution cost in line with the reduction of coal prices. At the same time, the Company has reviewed its investment plan in the new coal concessions by delaying the investment and waiting for appropriate time and opportunity. Moreover, the Company 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 coal sales will be improved, the power plant projects should also yield a good return, generating more revenue and profit in the future.

Ethanol Business: Ethanol sales in 2015 is expected to be about 10 percent higher than 2014. In the 2nd quarter 2015, TAE has started using raw granulated sugar as a raw material in conjunction with molasses in order to increase its raw material supply for ethanol production and maintain good profitability. Also, the molasses and raw granulated sugar, which are the raw material of the ethanol production, are adequately stocked for the production target for year 2015.

Regardless, the Company and the subsidiary companies can still be profitable from both businesses in 2015 despite the downtrend of global coal and oil market. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence to ensure good operating results in 2015 and proceed with regular dividend payment as planned.
