



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS



**FOR THE OPERATING RESULTS OF THE 2ND QUARTER 2016
AND THE FIRST 6-MONTH PERIOD OF 2016**



LANNA RESOURCES PUBLIC COMPANY LIMITED

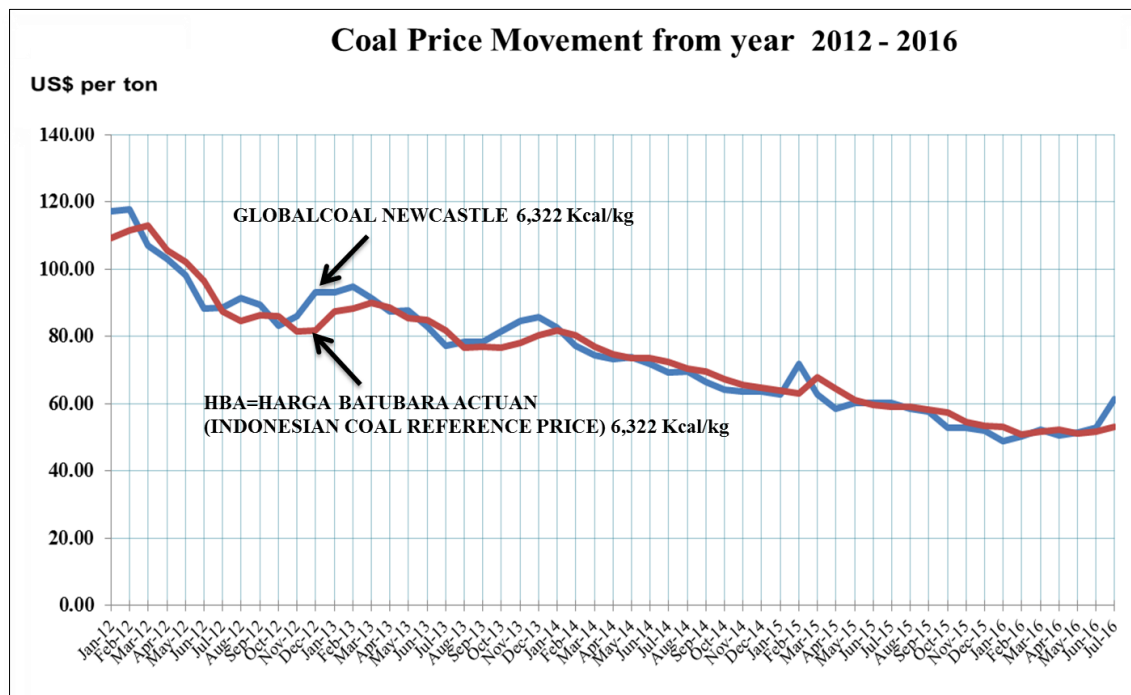
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter 2016 and the First 6-Month Period of 2016)

OVERALL OPERATING RESULTS

The Company's revenue in the 2nd quarter 2016 and the first 6-month period of 2016 were Baht 2,264.42 million and Baht 4,837.21 million, which decreased from the same period last year by 12.72 and 11.93 percent, respectively. The net profit derived from shareholding proportion of the Company in the 2nd quarter 2016 and the first 6-month period of 2016 were Baht 49.44 million and Baht 184.49 million, which decreased from the same period last year by 30.29 and 3.67 percent. This was due to the decline in coal and ethanol prices in accordance with global market situation with downtrend in coal and fuel prices.

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



In summary, the revenue from the coal business in the 2nd quarter 2016 and the first 6-month period of 2016 were Baht 1,571.54 million and Baht 3,456.28 million which decreased from the same period last year by 18.04 and 15.97 percent due to the decrease in coal sales volume and average selling price by 4.16 and 3.11 percent, respectively. The resulting net profit derived from shareholding proportion in the 2nd quarter 2016 and the first 6-month period of 2016 were Baht 15.49 million and Baht 61.14 million, which decreased from the same period last year by 41.50 and 16.14 percent. Regardless, while the operating results of the coal business have declined, it remains continuously profitable.

ETHANOL BUSINESS: The revenue in the 2nd quarter 2016 was Baht 680.65 million which increased from the same period last year by 1.79 percent and the revenue in the first 6-month period of 2016 was Baht 1,330.86 million, which decreased from the same period last year by 2.32 percent. This was due to the increase in ethanol sales volume in the 2nd quarter 2016 and the first 6-month period of 2016 of 17.15 and 10.71 percent, as compared with the same period last year but the average ethanol selling price in the 2nd quarter 2016 and the first 6-month period of 2016 decreased from the same period last year by 13.06 and 11.77 percent. This was due to the fact that the global fuel prices had remained at low level. In summary, the net profit derived from the shareholding proportion of the company in the 2nd quarter 2016 and the first 6-month period of 2016 were Baht 18.81 million and Baht 64.05 million, which decreased from the same period last year by 36.02 and 27.76 percent. The ethanol business has been continuously profitable as the coal business mentioned above.

OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarters			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2016	2/2016	2/2015	YoY (%)	QoQ (%)	2016	2015	
Revenue from Coal Sales	1,884.75	1,571.54	1,917.44	(18.04)	(16.62)	3,456.28	4,113.20	(15.97)
Revenue from Ethanol Sales	650.20	680.65	668.69	1.79	4.68	1,330.86	1,362.45	(2.32)
Other Revenue	37.85	12.23	8.40	45.60	(67.69)	50.07	17.09	192.98
Total Revenues	2,572.80	2,264.42	2,594.53	(12.72)	(11.99)	4,837.21	5,492.74	(11.93)

REVENUE

(1) The Company's revenue in the 2nd quarter 2016 totaled Baht 2,264.42 million, which decreased from the same period last year by Baht 330.11 million or 12.72 percent due to the following reasons:

(1.1) Revenue from coal business in the 2nd quarter 2016 totaled Baht 1,571.54 million, which decreased from the same period last year by Baht 345.90 million or 18.04 percent. This was due to the decrease in coal sales volume and average selling price of 4.16 percent and 14.48 percent, respectively, in line with the downtrend of coal prices in the global market.

(1.2) Revenue from ethanol business in the 2nd quarter 2016 totaled Baht 680.65 million, which increased from the same period last year by Baht 11.96 million or 1.79 percent. Despite an increase in ethanol sales volume of 17.05 percent, but the average ethanol selling price decreased by 13.06 percent due to the falling global fuel prices, which had remained at low level.

(1.3) Other revenues in the 2nd quarter 2016 totaled Baht 12.23 million, which increased from the same period last year by Baht 3.83 million or 45.60 percent due to the increase in foreign exchange gain and interest received.

(2) The Company's revenue in the first 6-month period of 2016 totaled Baht 4,837.21 million, which decreased from the same period last year by Baht 655.53 million or 11.93 percent due to the following reasons:

(2.1) Revenue from coal business in the first 6-month period of 2016 totaled Baht 3,456.28 million, which decreased from the same period last year by Baht 656.92 million or 15.97 percent. This was due to the decrease in coal sales volume and average selling price of 3.11 percent and 13.27 percent, respectively, in line with the downtrend of coal prices in the global market.

(2.2) Revenue from ethanol business in the first 6-month period of 2016 totaled Baht 1,330.86 million, which decreased from the same period last year by Baht 31.59 million or 2.32 percent. Despite an increase in ethanol sales volume of 10.71 percent, but the average ethanol selling price decreased by 11.77 percent due to the falling global gasoline prices, which had remained at low level.

(2.3) Other revenues in the first 6-month period of 2016 totaled Baht 50.07 million, which increased from the same period last year by Baht 32.98 million or 192.98 percent due to the increase in foreign exchange gain.

Expenses (Unit: Million Baht)	Quarters			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2016	2/2016	2/2015	YoY (%)	QoQ (%)	2016	2015	
Coal Business								
Cost of sales	1,323.49	1,114.21	1,274.47	(12.57)	(15.81)	2,437.70	2,778.68	(12.27)
Selling and administrative expenses	441.43	418.97	559.68	(25.14)	(5.09)	860.38	1,120.16	(23.19)
Financial cost	1.50	0.83	1.56	(46.79)	(44.67)	2.32	6.49	(64.25)
Corporate income tax	46.74	20.85	49.44	(57.83)	(55.39)	67.60	113.07	(40.21)
Ethanol Business								
Cost of sales	527.25	613.14	578.79	5.93	16.29	1,140.38	1,121.53	1.68
Selling and administrative expenses	13.67	17.19	14.76	16.46	25.75	30.87	24.56	25.69
Financial cost	10.85	9.98	13.29	(24.91)	(8.02)	20.84	28.34	(26.46)
Corporate income tax	9.69	2.39	3.68	(35.05)	(75.34)	12.07	13.15	(8.21)

COAL BUSINESS EXPENSES

(1) Coal business expenses in the 2nd quarter 2016 totaled Baht 1,554.86 million, which decreased from the same period last year by Baht 330.29 million or 17.52 percent, due to the following reasons:

(1.1) Cost of coal sales in the 2nd quarter 2016 was Baht 160.26 million, which decreased from the same period last year by 12.57 percent. This was due to the decrease in coal sales volume and cost of coal sales of 4.16 percent and 8.78 percent, respectively.

(1.2) Selling and administrative expenses in the 2nd quarter 2016 were Baht 140.71 million, which decreased from the same period last year by 25.14 percent due to the decrease in coal sales volume.

(1.3) Financial expenses in the 2nd quarter 2016 decreased from the same period last year by Baht 0.73 million or 46.79 percent.

(1.4) Corporate income tax in the 2nd quarter 2016 decreased from the same period last year by Baht 28.59 million or 57.83 percent due to the decrease in profit.

(2) Coal business expenses in the first 6-month period of 2016 totaled Baht 3,368 million, which decreased from the same period last year by Baht 650.40 million or 16.19 percent, due to the following reasons:

(2.1) Cost of coal sales in the first 6-month period of 2016 decreased from the same period last year by Baht 340.98 million or 12.27 percent. This was due to the decrease in coal sales volume and cost of ethanol sales of 3.11 percent and 9.46 percent, respectively.

(2.2) Selling and administrative expenses in the first 6-month period of 2016 decreased from the same period last year by Baht 259.78 million or 23.19 percent due to the decrease in coal sales volume.

(2.3) Financial expenses in the first 6-month period of 2016 decreased from the same period last year by Baht 4.17 million or 64.25 percent.

(2.4) Corporate income tax in the first 6-month period of 2016 decreased from the same period last year by Baht 45.47 million or 40.21 percent due to the decrease in profit.

ETHANOL BUSINESS EXPENSES

(1) Ethanol business expenses in the 2nd quarter 2016 totaled Baht 642.70 million, which increased from the same period last year by Baht 32.18 million or 5.27 percent, due to the following reasons:

(1.1) Cost of ethanol sales in the 2nd quarter 2016 increased from the same period last year by 34.35 million or 5.93 percent. Despite the increase in ethanol sales volume of 17.05 percent, but the molasses price, which is a raw material and a major cost, decreased by 12.62 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2016 increased from the same period last year by Baht 2.43 million or 16.46 percent. This was due to the increase in transportation cost in line with the increase in ethanol sales volume.

(1.3) Financial expenses in the 2nd quarter 2016 decreased from the same period last year by Baht 3.31 million or 24.91 percent due to loan repayment according to terms and repayment schedule in the loan agreement.

(1.4) There was no corporate income tax on the earnings from the Ethanol Production Line No. 2 in the 2nd quarter 2016, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Investment Promotion for the Ethanol Production Line No. 1 has been expired, with incurred corporate income tax for the 2nd quarter 2016 of Baht 2.39 million, which decreased from the same period last year by Baht 1.29 million or 35.05 percent due to the decrease in profit.

(2) Ethanol business expenses in the first 6-month period of 2016 totaled Baht 1,204.16 million, which increased from the same period last year by Baht 17.66 million or 1.49 percent, due to the following reasons:

(2.1) Cost of ethanol sales in the first 6-month period of 2016 increased from the same period last year by Baht 18.85 million or 1.68 percent. Despite the increase in ethanol sales volume of 10.71 percent, but the molasses price, which is a raw material and a major cost, decreased by 12.05 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2016 increased from the same period last year by Baht 6.31 million or 25.69 percent. This was due to the increase in transportation cost in line with the increase in ethanol sales volume.

(2.3) Financial expenses the first 6-month period of 2016 decreased from the same period last year by Baht 7.50 million or 26.46 percent due to loan repayment according to terms and repayment schedule in the loan agreement.

(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 2016, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520. However, the Investment Promotion for the Ethanol Production Line No. 1 has been expired, with incurred corporate income tax for the first 6-month period of 2016 of Baht 12.07 million, which decreased from the same period last year by Baht 1.08 million or 8.21 percent due to the decrease in profit.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April - June)						
Year 2016						
Revenues from sales	1,571.54	100.00	680.65	100.00	2,252.19	100.00
Less Cost of sales	1,114.21	70.90	613.14	90.08	1,727.35	76.70
Gross Profit	457.33	29.10	67.51	9.92	524.84	23.30
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
6-Month Period (January – June)						
Year 2016						
Revenues from sales	3,456.28	100.00	1,330.86	100.00	4,787.14	100.00
Less Cost of sales	2,437.70	70.53	1,140.38	85.69	3,578.08	74.74
Gross Profit	1,018.58	29.47	190.48	14.31	1,209.06	25.26
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

GROSS PROFIT

(1) The Company's gross profit in the 2nd quarter 2016 was Baht 524.84 million, or 23.30 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 732.87 million or 28.34 percent of the sales revenue, the gross profit decreased due to the following reasons:

(1.1) Gross profit from coal business in the 2nd quarter 2016 was 29.10 percent of the sales revenue, which decreased from the same period last year with gross profit of 33.53 of the sales revenue. This was due to the decrease in coal selling price of 14.48 percent, while the cost of coal sales decreased by only 8.78 percent.

(1.2) Gross profit from ethanol business in the 2nd quarter 2016 was 9.92 percent of the sales revenue, which decreased from the same period last year with gross profit of 13.44 percent of the sales revenue. This was due to the decrease in ethanol selling price of 13.06 percent, but the cost of ethanol sales decreased by 9.49 percent.

(2) The Company's gross profit in the first 6-month period of 2016 was Baht 1,209.06 million, or 25.26 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,575.44 million or 28.77 percent of sales revenue, the gross profit decreased due to the following reasons:

(2.1) Gross profit margin from coal business in the first 6-month period of 2016 was 29.47 percent of the sales revenue, which decreased from the same period last year with gross profit of 32.44 of the sales revenue. This was due to the decrease in coal selling price of 13.27 percent, while the cost of coal sales decreased by only 9.46 percent.

(2.2) Gross profit margin from ethanol business in the first 6-month period of 2016 was 14.31 percent of the sales revenue, which decreased from the same period last year with gross profit of 17.68 percent of the sales revenue. This was due to the decrease in ethanol selling price of 11.77 percent, but the cost of ethanol sales decreased by 8.15 percent.

Net Profit (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2016	2/2016	2/2015	YoY (%)	QoQ (%)	2016	2015	
Profit from Coal Business	45.64	15.49	26.48	(41.50)	(66.06)	61.14	72.91	(16.14)
Profit from Ethanol Business	45.23	18.81	29.40	(36.02)	(58.41)	64.05	88.66	(27.76)
Other revenue and share of income from investment in associate company	44.17	15.14	15.04	0.66	(65.72)	59.30	29.94	98.06
Net Profit	135.04	49.44	70.92	(30.29)	(63.39)	184.49	191.51	(3.67)
Net Earnings per Share (Baht per Share)	0.26	0.09	0.14	(30.29)	(63.39)	0.35	0.36	(3.67)

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2016 was Baht 49.44 million, or net earnings per share of Baht 0.09. When compared with the same period last year, the net profit decreased by Baht 21.48 million, or a decrease in net earnings per share of Baht 0.05 or 30.29 percent, due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company in the 2nd quarter 2016 was Baht 15.49 million or 31.33 percent of the total net profit, which decreased from the same period last year by Baht 10.99 million or 41.50 percent. This was due to the decrease in coal sales volume and average coal selling price of 4.16 percent and 14.48 percent, respectively, in line with the downtrend of coal prices in the global market.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company in the 2nd quarter 2016 was Baht 18.81 million or 38.05 percent of the total net profit, which decreased from the same period last year by Baht 10.59 million or 36.02 percent due to the decrease in the average ethanol selling price of 13.06 percent in line with the downtrend of fuel prices in the global market.

(1.3) Other revenues and share of income from investment in the associate company in the 2nd quarter 2016 was Baht 15.14 million or 30.62 percent of the total net profit, which increased from the same period last year by Baht 0.10 million or 0.66 percent due to the increase in foreign exchange gain.

(2) The Company's net profit in the first 6-month period of 2016 was Baht 184.49 million, or net earnings per share of Baht 0.35. When compared with the same period last year, the net profit decreased by Baht 7.02 million, or a decrease of net earnings per share of Baht 0.01 or 3.67 percent, due to the following reasons:

(2.1) Net profit from coal business derived from shareholding proportion of the Company in the first 6-month period of 2016 was Baht 61.14 million or 33.14 percent of the total net profit, which decreased from the same period last year by Baht 11.77 million or 16.14 percent. This was due to the decrease in coal sales volume and average coal selling price of 3.11 percent and 13.27 percent, respectively, in line with the downtrend of coal prices in the global market.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company in the first 6-month period of 2016 was Baht 64.05 million or 34.72 percent of the total net profit, which decreased from the same period last year by Baht 24.61 million or 27.76 percent due to the decrease in the average ethanol selling price of 11.77 percent in line with the downtrend of fuel prices in the global market.

(2.3) Other revenues and share of income from investment in the associate company in the first 6-month period of 2016 was Baht 59.30 million or 32.14 percent of the total net profit, which increased from the same period last year by Baht 29.36 million or 98.06 percent due to the increase in foreign exchange gain.

EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2016 was Baht 623.47 million, which decreased from the same period last year by Baht 156.11 million or 20.02 percent.

(2) EBITDA margin in the first 6-month period of 2016 was at 12.89 percent, which decreased from the same period last year by 9.19 percent.

(3) Net profit margin in the first 6-month period of 2016 was at 5.67 percent, which increased from the same period last year by 3.95 percent.

(4) Return on equity in the first 6-month period of 2016 was at 4.37 percent, which decreased from the same period last year 4.43 percent.

(5) Return on total assets in the first 6-month period of 2016 was at 3.23 percent, which decreased from the same period last year by 5.18 percent. The return on fixed assets in the first 6-month period of 2016 was at 15.18 percent, which decreased from the same period last year by 13.82 percent.

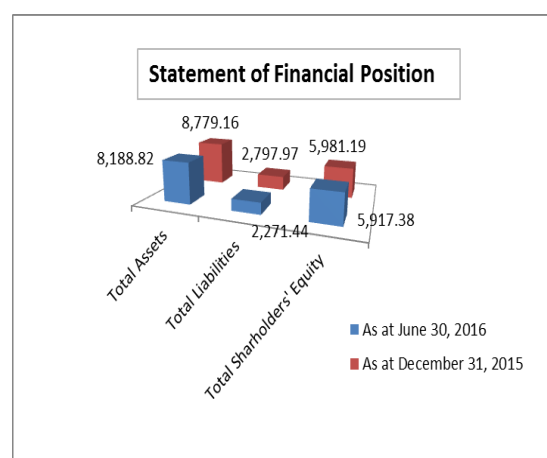
STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at June 30, 2016	As at December 31, 2015	Million Baht	%
Total Assets	8,188.82	8,779.16	(590.34)	(6.72)
Total Liabilities	2,271.44	2,797.97	(526.53)	(18.82)
Total Shareholders' Equity	5,917.38	5,981.19	(63.81)	(1.07)
Book Value-Baht per Share	7.98	8.11	(0.13)	(1.60)

Remark: Registered par value of Baht 1 per share

ASSETS: The Company's total assets as at June 30, 2016 decreased from end of year of 2015 by Baht 590.34 million or a decrease of 6.72 percent, consisting of: (1) Current assets decreased from end of year of 2015 by Baht 559.15 million or 12.51 percent, due to (A) cash and cash equivalent decreased by Baht 1.37 million or 0.09 percent; (B) trade accounts receivable and other accounts receivable increased by Baht 5.22 million or 0.64 percent; (C) inventories increased by Baht 154.43 million or 32.30 percent; and (D) other current assets decreased by Baht 717.43 million or 43.04 percent. (2) Non-current assets, most of which were deposits with guarantee, decreased from end of year of 2015 by Baht 31.19 million or 0.72 percent.

LIABILITIES: The Company's total liabilities as at June 30, 2016 decreased from end of year of 2015 by Baht 526.53 million or 18.82 percent, consisting of: (1) Trade accounts payable and other accounts payable decreased from end of year of 2015 by Baht 36.72 million or 8.94 percent (2) Short-term and long-term loans decreased from end of year of 2015 by Baht 397.56 million or 26.25 percent due to loan repayment by subsidiary companies according to the terms and repayment schedule in the loan agreement.(3) Accrued expenses, most of which were overburden removal expenses, freight cost, etc., decreased from end of year of 2015 by Baht 112.92 million or 21.04 percent. (4) Other liabilities, most of which were provision for mine rehabilitation and allowance for long-term benefits of employees, etc., increased from end of year of 2015 by Baht 20.67 million or 6.15 percent.



TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at June 30, 2016 decreased from end of year of 2015 by Baht 63.81 million or 1.07 percent, resulting in a decrease of the share's book value from Baht 8.11 per share to Baht 7.98 per share, a decrease of Baht 0.13 per share or 1.60 percent. This was due to: (A) a decrease in net profit of Baht 25.51 million or 0.90 percent, due to an increase in net profit of Baht 184.49 million but there was a dividend payment of Baht 210 million (B) a net decrease in translation adjustment in financial statements and other items of Baht 41.20 million or 31.65 percent, and (D) an increase in minority shareholders' equity of Baht 2.90 million or 0.17 percent.

CASH FLOWS

Description	Unit: Million Baht	
	First 6-Month Period of 2016	First 6-Month Period of 2015
Cash Flows from (used in) Operating Activities	907.70	1,095.04
Cash Flows from (used in) Investing Activities	(209.17)	(220.92)
Cash Flows from (used in) Financing Activities	(695.69)	(610.94)
Increase (Decrease) in Translation Adjustments in Financial Statements	18.71	(29.76)
Net Increase (Decrease) in Cash	21.55	233.42
Cash at the beginning of the period	660.15	446.92
Cash at the end of the period	681.70	680.34

(1) The Company's net cash from operating activities in the first 6-month period of 2016 was Baht 907.70 million, consisting of: (A) income before corporate income tax and interest expense of Baht 353.94 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 280.42 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 486.25 million due to a decrease in current assets; (D) a decrease in operating liabilities of Baht 187.91 million due to a decrease in trade accounts payable and in accrued expenses; and (E) an increase in interest received of Baht 7.65 million, despite an increase in interest expense and taxes of Baht 32.65 million.

(2) The Company's net cash used in investing activities in the first 6-month period of 2016 was Baht 209.17 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 98.77 million, most of which was construction of a biogas power plant and molasses tanks of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 101.01 million; and (C) short-term capital investment and other items which increased by a total of Baht 9.39 million.

(3) The Company's net cash used in financing activities in the first 6-month period of 2016 was Baht 695.69 million, including (A) a decrease in loan of Baht 398.80 million, (B) dividend payment of Baht 272.12 million, and (D) a decrease in minority shareholders' equity of Baht 24.77 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at June 30, 2016 were 9.98 percent of total asset. The provision of doubtful debts are considered based on a review of receivable period and assessment of past debt collection experience. Accordingly, the Company has experienced very little bad debt and has not found any unusual transaction and therefore, there was no provision for doubtful debt in the 2nd quarter 2016.

(2) Inventory as at June 30, 2016 was 7.72 percent of total assets, having established allowance for impairment loss of inventory in the 2nd quarter 2016 of Baht 3.54 million due to the impact from lower market price of subsidiary companies.

(3) Goodwill from investment in the subsidiary company in Indonesia as at June 30, 2016 is accounted for 2.27 percent of total assets, 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 2016.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at June 30, 2016 was as low as 0.38 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 first 6-month period of 2016 is as high as 26.92 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, 2016 were as high as 2.29 times and 1.34 times, respectively. In addition, the Company and its subsidiary companies have adequate credit line for working capital in the future and therefore have no cash liquidity problem.

(3) The Company's cash cycle in the first 6-month period of 2016 was at 41 days, an increase from the same period last year of 3 days. The average debt collection period was at 30 days, an increase from the same period last year of 6 days. The average inventory turnover was at 28 days, a decrease from the same period last year of 5 days. However, the average debt repayment period was at 17 days or a decrease from the same period last 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: It is expected that coal prices in 2016 will continue to fluctuate within low price level in accordance with global market situation with downtrend in coal and fuel prices. Accordingly, the Company has set out a strategy to reduce the production cost and choose appropriate product mix for coal distribution in line with the decline in coal prices to ensure continuous profitability. Meanwhile, the Company has revised its investment plan and established Lanna Power Generation Co., Ltd. with the Company holding 99.99985 percent of the paid-up capital to prepare for investments in coal-fired power plant projects in Thailand and overseas. The Company and its subsidiary companies have capability to invest in such projects, having its own coal mine concessions. Not only the coal production and distribution will be improved, the projects should also yield good investment return from such power plants, generating more revenue and profit in the future.

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

Nonetheless, the Company and the subsidiary companies can still be profitable in both businesses in 2016, despite the downtrend of global coal and fuel 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 payments according to the established policy.
